Pelargos Japan Alpha Fund

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2012

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FUND INFORMATION

REGISTERED OFFICE	WTC Tower E 7th Floor Prinses Margrietplantsoen 43 2595 AM The Hague The Netherlands www.pelargoscapital.com
INVESTMENT MANAGER	Pelargos Capital B.V. WTC Tower E 7th Floor Prinses Margrietplantsoen 43 2595 AM The Hague The Netherlands
TRUSTEE	Stichting Bewaarder Pelargos Japan Alpha Fund c/o: ANT Trust & Corporate Services N.V. Claude Debussylaan 24 1082 MD Amsterdam The Netherlands
FUND ADMINISTRATOR	Citibank Europe plc* 1 North Wall Quay Dublin 1 Ireland
PRIME BROKER	Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB United Kingdom UBS AG 1 Finsbury Avenue London EC2M 2PP United Kingdom
LEGAL ADVISOR	De Brauw Blackstone Westbroek N.V. Tripolis Claude Debussylaan 80 1082 MD Amsterdam The Netherlands
COMPLIANCE	CLCS B.V. Keizersgracht 433 1017 DJ Amsterdam The Netherlands
INDEPENDENT AUDITORS	Ernst & Young Accountants LLP Wassenaarseweg 80 2596 CZ The Hague The Netherlands

* Since 1 January 2012, the administration function was transferred from Citi Hedge Fund Services (Ireland) to Citibank Europe plc pursuant to a scheme of arrangement.

FUND PROFILE

Pelargos Japan Alpha Fund
The Fund is an open-ended investment fund. Issue and redemption of units of participation is possible at the instigation of the Participant as described in the Prospectus. Date of commencement of NAV calculation was 10 July 2008.

Key Features Document ("Essentiële Beleggersinformatie") and Prospectus
For this financial product a Key Features Document applies containing Fund information related to its costs and risks. The Key Features Document and Prospectus are available on www.pelargoscapital.com.

Investment objective
The Fund's objective is to achieve absolute returns in the long term. Funds that aim for absolute returns in the long term are characterised by a modest volatility and a low correlation with share indices in the region. Assets can be invested in a wide range of financial instruments. The Fund makes use of combinations of long and short positions in equities, as well as derivative positions. The Fund may also use leverage to achieve the return targets or for liquidity reasons in case units of participation are redeemed. Assets will predominantly be invested in Japanese securities. Pelargos Capital B.V. has defined a Socially Responsible Investing policy with reference to the investments held by the Funds, implying that some specific companies can be excluded from the investment universe.

Dividend
In principle the Fund does not pay dividends. The Investment Manager is, however, authorised to decide to pay part of the profit available for distribution to the Participants.

Investment Manager
Pelargos Capital B.V. is the Investment Manager of the Fund and as such is responsible for implementing the investment policy. Pelargos Capital B.V. is registered at The Netherlands Authority of the Financial Markets (AFM). The Pelargos Japan Alpha Fund does not employ any personnel, as all services are provided by the Investment Manager.

Pelargos Capital B.V. was incorporated on 4 March, 2008 and has its registered office in The Hague. The directors of Pelargos Capital B.V. are Orange Dragon Company B.V. (represented by R.A. Dingemans), Emphi B.V. (represented by P.P.J. van de Laar), Limare B.V. (represented by P.C. Rigter) and until 28 September 2012 Pavonis B.V. (represented by R.M. Salomons).

Trustee
The Trustee is Stichting Bewaarder Pelargos Japan Alpha Fund. The management of the "Stichting" is ANT Custody B.V.

Administrator and Prime Broker
The Fund is administered by Citibank Europe plc. The Prime Brokers of the Fund are Goldman Sachs International, London, United Kingdom and UBS AG, London, United Kingdom.

SUMMARY FINANCIAL INFORMATION

	2012	2011	2010	2009	2008^
Class A (€ '000)	36	(24)	255	33	-
Class B (€ '000)	13,077	(1,615)	15,215	3,315	905
Income	**13,113**	**(1,639)**	**15,470**	**3,348**	**905**
Class A (€ '000)	(14)	(59)	(85)	(25)	-
Class B (€ '000)	(3,516)	(3,230)	(5,058)	(2,566)	(309)
Expenses and withholding taxes	**(3,530)**	**(3,289)**	**(5,143)**	**(2,591)**	**(309)**
Class A (€ '000)	22	(83)	170	8	-
Class B (€ '000)	9,561	(4,845)	10,157	749	596
Increase/(decrease)	**9,583**	**(4,928)**	**10,327**	**757**	**596**
Net assets (€ '000)	97,530	86,713	117,342	109,290	10,643
Number of units of participation					
Class A	236.02	1,221.32	1,775.74	1,082.61	-
Class B	76,492.23	74,562.01	96,192.86	98,911.13	9,996.99
Net asset value per unit of participation					
Class A (in €)	1,142.61	1,036.49	1,090.54	1,003.63	-
Class B (in €)	1,271.51	1,145.98	1,199.73	1,093.95	1,064.65
Performance					
Class A (in %)	10.24	(4.96)	8.66	0.36	-
Class B (in %)	10.95	(4.48)	9.67	2.75	6.45
Ongoing Charges Figure# (in %)					
Class A (in %)	1.6	1.5	1.8	1.5	-
Ongoing Charges Figure# (in %)					
Class B (in %)	1.1	1.0	1.2	1.4	1.2

^ For the period from 19 June 2008 (date of incorporation) to 31 December 2008

Figures for 2008, 2009 and 2010 are based on Total Expense Ratios

INVESTMENT MANAGER'S REPORT

For the year ended 31 December 2012

Performance

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Class A	-1.43	3.77	1.31	-1.26	-3.88	1.72	0.79	0.89	1.28	0.54	2.53	3.78	**10.24**
Class B	-1.38	3.81	1.35	-1.21	-3.83	1.76	0.84	0.93	1.32	0.58	2.50	4.06	**10.95**

Source: Citibank Europe plc.

In 2012 the Pelargos Japan Alpha Fund delivered a positive return of 10.95% for Class B. This is our highest annual performance since the Fund was launched in July 2008. Last year, the realized volatility was 6.1%, the beta was 0.22 and the correlation with the MSCI Japan Index was 0.58, based on daily return data.

Since inception the Fund has gained 27.15%, whilst the MSCI Japan Index lost 35% in local currency and 3.7% in Euro over the same period. Based on daily returns, the Fund had a realized volatility of 6.3% compared to 26.6% for the MSCI Japan Index. Since inception, the correlation with this index was 0.41 and the Fund had an ex-post beta of 0.1, based on daily returns.

Class A shares, which have a different fee load, increased 10.24 % in Euro in 2012.

The assets under management of the Fund (Class A and B combined) have increased in 2012 to €97.5 million, mainly due to the Funds' performance.

Market review

2012 proved to be another volatile year with extreme swings in the Japanese equity market. In early January investors were universally negative on the Japanese market. The domestic economy was still in a precarious situation post the 2011 earthquake and the export side of the Japanese economy suffered from an ever appreciating Yen hitting 76 JPY/USD early February 2012. The pressure from Japan Inc. on the Ministry of Finance (MoF) and political pressure on the Bank of Japan (BoJ) reached a point at which policy action had to be accelerated. In February the BoJ announced to increase its asset purchase program and did so on several occasions in 2012. In that context, monetary policy gradually shifted towards inflation targeting. Equity investors bought into this increasingly pro-active reflationary policy. Stocks of companies benefiting from higher inflation expectations, such as Real Estate companies, housing related business models and credit related companies started to perform well.

Japanese equities rallied more than 20% into fiscal year end March 2012. The new found optimism quickly faded for no other reason than that the JPY started to appreciate and market participants questioned policy makers' conviction. The BoJ steadily increased its asset purchase program encompassing significant amounts of equity. This extraordinary, unorthodox approach to execute monetary policy is an effective manner to circumvent the traditional money transition mechanism. The BoJ targets the outright purchase of risk assets in order to drive down risk premiums. Market participants neglected the BoJ's actions during the 2nd and 3rd quarter and focused on news headlines relating to massive losses by battered exporters. Sharp was close to bankruptcy and Panasonic announced unparalleled losses. Another wave of downward revisions and selling hit the market. The vicious April/May sell-off lasted 2 ½ months and ended in wide-spread capitulation selling, down 20% from March highs. Early June, the MSCI Japan Index was down 4% year-to-date and hit the low for the year. During the next few months the incoming economic data continued to disappoint and the market underwent wild swings of confused sideways trading. On one hand, investors faced exceedingly negative corporate news, but on the other hand the MoF on the currency side and BoJ on the equity side were basically underwriting a put preventing further market declines. In the meantime, the real estate and REIT sector together with housing construction and credit related stocks continued to perform well. Exporters continued to be under heavy pressure and it even intensified as tensions over disputed islands increased with its major trading partner, China.

The catalyst for a major rally turned out to be the election, which the LDP run on monetary policy and promising an inflation target to its electorate. Investors got very excited about the increased likelihood of Japan transitioning from deflation towards inflation, which tends to benefit equity holders. The MSCI Japan Index rallied 19% from November lows into December year end, and for 2012 the MSCI Japan Index ended up 19% in JPY terms. However, measured in Euro, Japanese equities showed a meager increase of 4.2%.

Investment policy

Early 2012 the Fund´s positioning had a cautious tilt. Due to the tremendous value opportunities in the Japanese market we started off with a decent net long position of 28%, but with a rather defensive gross exposure. We were short cyclical business models as the fundamentals were and remained dismal. The shift in risk perception squeezed our shorts higher and as stop losses were triggered, we transitioned the Fund towards a less defensive style.

The Fund had a great first quarter (+3.75% for Class B) and benefited from its distinct value bias. As the JPY depreciated our good positions in undervalued exporters, such as Toyota Motors and Shinko Electro, rallied. Despite reducing risk in March, by hedging the net exposure down to 18%, the reversal of the policy-induced rally caused May to be the worst month since inception. In the second half of that particular month we noticed wide-spread forced redemption selling. Especially value strategies suffered as, we presume, those strategies were the last successful strategy to redeem.

Despite the disappointing performance in May (-3.83% for Class B), we were convinced that the valuation of our long book had reached extremes, as did sentiment. In addition to the lowest valuation in decades, policy makers provided downside protection with the MoF capping the upward pressure of the JPY and the BoJ supporting equity prices by buying Topix ETFs on down-days.

We came to the conclusion that our long positions offered an exceptionally skewed payoff structure and started to build a substantially higher net exposure in our quality holdings. From June onwards we steadily increased position sizes in extremely undervalued companies. At the same time we deemed tail risk hedging extremely inexpensive and hedged the market exposure with cheap puts at levels which, we assessed, required extreme, external shocks.

Indeed, external shocks were plentiful in 2011 and 2012 and somehow Japan just cannot seem to get a break. The country had its tsunami, followed by a nuclear disaster, another looming recession, the Thai flood´s prolonged disruption of many supply chains and not to mention a territorial dispute with its largest trading partner, whose economy was slowing down. The political system was and is close to dysfunctional and corporate profitability highly disappointing. Blue chip companies experienced unprecedented losses and inadequate management was exposed. The environment portrayed in the summer and early autumn of 2012 was one of dismay, neglect and revulsion. It turned out to be the contrarian trade of the year and we benefited from taking ´the other side´ as election rumors started to mount.

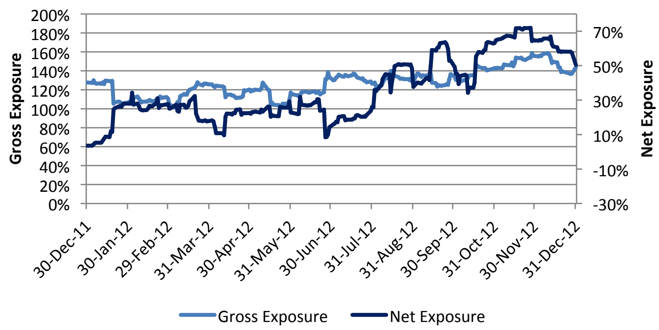
With elections approaching, policy makers capitulated and pushed towards another round of currency debasement. We disagree with the thesis of monetary Apparatchiks that quantitative easing has a favorable impact on real economic activity. Domestic overcapacity with a shrinking labor pool is a structural issue that cannot be resolved by providing easier money. Nevertheless, policy induced downside protection led to a lower risk premium and the reflation trade took off and with it our long positions in Ichigo, Acom, Hajime Construction, Iida Home Max and SMFG. In 9 out of 12 months the Fund posted a positive return and the Fund closed the year with December being the best month since inception with a +4.06% return for Class B.

The Fund’s net and gross exposures (excluding derivatives) by the end of December were 50% and 144%, respectively. Table 1 and Graph 1 below presents key statistics with respect to exposure management. The net exposure in the Fund was in the range of 4% - 72% in 2012, with an average net exposure of 35%. The gross exposure in the Fund was in the range of 102% - 159% in 2012, with an average gross exposure of 127%. Graph 1 shows how the net and gross exposure evolved throughout 2012.

Table 1. Net- and gross exposure and ex-ante beta of the Fund in 2012

	High	Low	Average
Net exposure	72%	4%	35%
Gross exposure	159%	102%	127%
Ex-Ante Beta	0.41	0.06	0.23

Graph1. Pelargos Japan Alpha Fund exposure on a daily basis in 2012



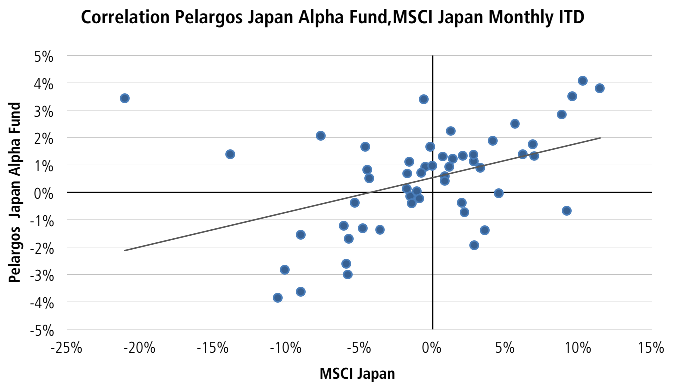
The ex-ante beta of the Fund remained in a range of 0.06 to 0.41, averaging 0.23 for the year. The Fund maintained its embedded value bias and the Fund´s liquidity remained very high: 91% of the Fund could be liquidated in 2 days. The correlation of the fund with the MSCI Japan Index for 2012 was 0.58 and 0.41 since inception, both based on daily return data.

Table 2. Realized volatility, beta and correlation of Fund and MSCI Japan Index

Year	Volatility Fund	Volatility Benchmark	Ex-post Beta Fund	Correlation Fund, Benchmark
ITD	6.3%	15.7%	0.10	0.41
2012	6.1%	16.3%	0.22	0.58

Graph 2 shows the correlation of the Fund's monthly returns with the MSCI Japan Index since inception. The Fund's correlation with the market has increased over the past few years, because the valuation of the long book became very attractive and it offered an asymmetric pay-off structure that was heavily tilted towards the upside. Therefore we implemented a barbell approach: high net market exposure, protected by a tail-risk hedge in the case of extreme external shocks.

Graph 2. Correlation of the Fund and MSCI Japan Index since inception.



Outlook

In our opinion 2012 was the turning point for the Japanese equity market. Japanese equities churned sideways for the past 4 years with valuation multiples contracting towards the lowest level in decades. Bear markets do not end in panic, but rather in neglect. A bit of sentiment change and pick up in investor's interest can trigger sharp rallies such as the one we have seen in November/December 2012. The rally occurred on heavy volumes as value investors flocked into Japan and judging by the parabolic rally, prices moved too far too quickly as sentiment got ahead of economic reality. That said, after 20 years of balance sheet recession and a devastating equity bear market we are looking for a transition rather than a switch. The 20 year bull market in Japanese Government Bonds (JGB) has reached final phase and we are looking for a gradual shift away from bonds into equities.

Admittedly, such trend reversals tend to happen very slowly. However, based on valuations the odds are very much in favor of equity. Even after last year's late rally our long book still trades only close to book value and has a dividend yield of 2.4%, about triple the 10-year JGB yield. Given the low pay-out ratios and healthy free cash flow generation there is room to further increase dividends.

The market's real discount rate is still close to the highest level in decades and currently among the highest globally. With monetary and fiscal authorities pursuing an aggressive reflationary policy, this real risk premium should compress and lead to much higher equity valuation. Admittedly, as we anticipate a reversal of the bear market trend we need to see confirmation in a depreciating JPY and somewhat higher bond yields. As long as the reflation trade does not destabilize the bond market, we expect a stronger bid for risk assets.

The bond market is key to our bullish base case scenario due to Japan's precarious government debt situation. The country has the highest government debt levels globally; a stunning 220% government debt to GDP. Although, its net debt amounts to roughly 110% of GDP, it is still excessive as Japan's population started to decline and by that its propensity to finance the government deficit diminishes. If policy makers succeed in devaluing the JPY and it carries on too far, bond yields might increase too rapidly and that introduces an adverse scenario tempering our bullish outlook.

Our long book would greatly benefit from controlled JPY depreciation and a contained increase in inflation expectations. Most companies have depreciated their asset bases and implemented continuous cost cutting as sales prices kept on declining. A bit of pricing power would have a tremendous impact on corporate profitability. A structural call on Japanese equities remains undoubtedly tied to the global inflation outlook. That said, if JGB yields increase too rapidly, this could upset the bond market and trigger a sell-off in other risk assets as well.

Value strategies performed extremely well over decades in Japan. 2012 was a highly volatile year for a simple price-to-book strategy, but low price-to-earnings stocks with high earnings momentum performed well. Thus, net-net a simple value strategy would have generated some alpha last year. We expect low price-to-book stocks to perform well in 2013 as declining risk premiums tend to unlock asset based mispricing. The price-to-book ratio of the long book is 1.0x, the short book 1.8x and we expect that spread to narrow in the course of 2013.

A revival of sovereign risk crises poses the biggest risk to our base case scenario of diminishing risk premiums and asset based valuation strategies performing well. In our opinion, the developed world is indebted to an extend that increased systematic risk is here to stay for years to come. Neither the European situation nor the US fiscal deterioration will be quickly resolved and can quickly destabilize asset markets and increase volatility from too low levels. Additionally, geo-political risks in Asia are rising as well. North-Korean nuclear threats and the territorial disputes between China and Japan and the Philippines are recent examples that come into mind.

Finally, last year we were pounding the table that there is a value opportunity on the long side in Japan and our value tilt would more than compensate for the poor performance in 2011. The tide has turned and what is too cheap cannot stay on sale forever. Our contrarian bet has paid off in 2012 and our base case remains that a bull cycle has started. We remain focused on cheap assets and highly disciplined in what to own and not to succumb to the fallacy to just buy financially and operationally levered business models. There are still ample stock specific opportunities in this under-researched Japanese market.

Risk Management
Pelargos Capital B.V. has formulated the Pelargos Capital Fund Governance Code, which complies to the Dufas Fund Governance Principles. This code can be downloaded at: www.pelargoscapital.com.

We have devised a prudent risk management framework that is appropriate to the size and scope of the firm and operations. In Compliance, Directors and Portfolio Management meetings, risks are reviewed, identified and previously identified risks are monitored.

Risk management is considered an integral part of the investment and the operational process. Risk management supports decision making in order to minimize unexpected losses and achieve the absolute return objective. Financial risk management encompasses all elements of our investment process from idea generation, implementation of trades, performance measurement, reporting and attribution analysis. A number of risk management systems allow us to notice any deviations to intended positioning and targets. Operational risk management recognizes the four areas of potential losses; processes, systems, people and external events. With these sources of risk in mind processes and controls are developed, documented and monitored.

Exposures to markets, currencies or countries are described in Note 9 of the financial statements. The most important risks are described below; a more extensive list of risks is described in the Prospectus.

Risks
Volatility of securities held
Many factors can affect the market value of the securities invested in by the Fund. Not only factors inherent to the pertinent issuing company or the sector in which it operates may influence that value; also geopolitical, national developments and macro-economic factors may have that effect. The performance of the Fund largely depends on the decisions that the fund manager takes as part of the investment process, leading from identification to the implementation of investment opportunities. Investments may be geared towards an expected upswing or downswing in the value of a security; if the security moves adversely the value of the Fund may be negatively affected.

Market risk is mitigated by the allocation of appropriate capital resources, which are determined on the basis of stress testing, sensitivity testing and modeling. Concentration risk is mitigated by diversification and holding an adequate number of holdings in the portfolio. The liquidity policy is to maintain assets in such proportion that it will at all times enable the manager to meet its liabilities as they arise.

Short selling
The Fund may sell equities with the purpose of buying them back later. As the Fund does not hold those equities, they are borrowed. The costs of borrowing varies and influences the return realized on the pertinent position. Conceivably, borrowed equities may need to be returned to the lender at an earlier date than expected. The value of the borrow amount is limited to a maximum of 250% of the Net Asset Value of all (Sub)Classes of Participations.

The prime broker calculates the maximum amount to be lent on the basis of all long and short securities held at the prime broker; this is called the total margin requirement. The Fund does not provide individual securities as collateral for each individual short security transaction. The total short position is taken into account in the calculation of margin requirement.

Loans
Loans provided by the prime brokers enable the Fund to increase its gross exposure. This increases the Fund's risk profile in terms of price volatility and interest rate volatility. Theoretically holdings purchased with borrowed funds could drop to a value that is less than the amount borrowed. The value of the loan amount is limited to a maximum of 250% of the Net Asset Value of all (Sub)Classes of Participations.

Counterparty risk
The Fund is susceptible to the risk that counterparties of the Fund will default on their obligations as a result of inter alia a moratorium of payment or involuntarily liquidation. Such counterparties include the Prime Brokers. A Prime Broker is entitled to pledge assets of the Fund to third parties to secure financing to the Fund (rehypothecation). In case of involuntary liquidation of the Prime Broker, the Fund ranks as a general creditor in respect to the value of the rehypothecated assets, with the risk that this value may not be reclaimed. The amount of rehypothecation of long assets is limited to 140% of the net indebtedness of the Fund.

Derivatives
The Fund may utilise investment instruments such as exchange-traded futures, OTC options and other derivative contracts. Depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or loss that is high in proportion to the amounts of the funds actually placed as initial margin or premium paid. Because OTC transactions are not executed via an exchange, pricing may be less transparent. Additionally, OTC transactions may involve counterparty risk with respect to the unrealised profit value within the contract.

Other information

Statement related to administrative organization and internal control

The Investment Manager has a statement of operational management, which meets the requirements of the Dutch Financial Supervision Act (Wet op het financieel toezicht, or 'Wft') and the Dutch Market Conduct Supervision of Financial Enterprises Decree (Besluit gedragstoezicht financiële ondernemingen, or 'Bgfo').

We have assessed several aspects of operational management throughout the past financial year. We have noticed nothing in our assessments that would lead us to conclude that the description of the structural aspects of operational management within the meaning of article 121 of the Bgfo failed to meet the requirements as specified in the Wft and related regulations. Based on these findings we, as Investment Manager of the Fund, declare that we possess a statement of operational management as defined by article 121 of the Bgfo, which meets the requirements of the Bgfo.

We have noticed nothing that would lead us to conclude that operational management does not function as described in this statement.
We therefore declare with reasonable assurance that operational management has been effective and has functioned as described throughout the reporting year.

The Hague, April 24, 2013

Richard Dingemans, on behalf of Orange Dragon Company B.V. Director Pelargos Capital B.V.	P.P.J. van de Laar, on behalf of Emphi B.V. Director Pelargos Capital B.V.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	2012 €	2011 €
Assets			
Cash and cash equivalents	4	41,884,033	85,540,204
Financial assets at fair value through profit or loss	3&9	94,671,115	51,656,660
Amounts due from brokers	5	1,587,020	8,990,574
Dividends receivable		144,114	170,565
Interest receivable		103	3,345
Total assets		**138,286,385**	**146,361,348**
Liabilities			
Financial liabilities at fair value through profit or loss	3&9	38,648,710	53,854,686
Management fee payable	6	83,618	71,852
Interest payable		1,241	2,469
Dividends payable		65,115	71,937
Accrued expenses	7	51,055	40,869
Performance fee payable	6	971,696	-
Equalisation credit payable		342	-
Amounts due to brokers	5	934,300	5,606,941
Total liabilities		**40,756,077**	**59,648,754**
Net assets attributable to holders of redeemable units of participation		**97,530,308**	**86,712,594**

Net asset value per unit of participation

Class A	**2012**	**2011**	**2010**
Number of units of participation (Note 11)	236.02	1,221.32	1,775.74
Net asset value per unit of participation	€ 1,142.61	€1,036.49	€1,090.54
Class B	**2012**	**2011**	**2010**
Number of units of participation (Note 11)	76,492.23	74,562.01	96,192.86
Net asset value per unit of participation	€ 1,271.51	€1,145.98	€1,199.73
Total Net Asset Value	**€ 97,530,308**	**€86,712,594**	**€117,341,861**

See notes to the financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012	2011
		€	€
Investment income			
Interest income	8	47,732	685,410
Gross dividend income		1,930,095	2,343,601
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	3	11,253,030	(4,293,665)
Net foreign exchange loss		(118,125)	(402,890)
Other Income		-	28,068
		13,112,732	**(1,639,476)**
Operating expenses			
Performance fees	6	(971,696)	-
Management fees	6	(937,471)	(1,096,695)
Dividend expense on securities sold short		(629,460)	(1,071,394)
Other expenses	6	(71,597)	7,009
Interest expense	8	(682,761)	(904,475)
Administration fee	6	(55,955)	(43,078)
Trustee's fee	6	(19,884)	(25,430)
Legal fee	6	(19,857)	30,701
Audit fees	6	(17,808)	(21,431)
		(3,406,489)	**(3,124,793)**
Withholding taxes		(122,859)	(164,052)
Increase/(decrease) attributable to holders of redeemable units of participation		**9,583,384**	**(4,928,321)**

See notes to the financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012	2011
	€	€
Cash flows from operating activities		
Increase/(decrease) attributable to holders of redeemable units of participation	9,583,384	(4,928,321)
Adjustments to reconcile (decrease)/ Increase attributable to holders of redeemable units of participation to net cash (used in)/provided by operating activities:		
(Increase)/decrease in financial assets at fair value through profit or loss	(43,014,455)	59,723,214
Decrease in financial liabilities at fair value though profit or loss	(15,205,976)	(21,589,249)
Increase in amounts due from brokers	7,403,554	(5,267,141)
Increase in amounts due to brokers	(4,672,661)	2,281,290
Decrease in interest receivable	3,242	5
Decrease/(increase) in dividends receivable	26,451	(55,909)
Increase/(decrease) in performance fees payable	971,696	(1,802,764)
Increase/(decrease) in management fees payable	11,766	(30,260)
Increase/(decrease) in accrued expenses	10,206	(188,634)
Decrease in dividends payable	(6,822)	(90,765)
Decrease in interest payable	(1,228)	(2,448)
Increase in equalisation credit payable	342	-
Net cash (used in)/provided by operating activities	**(44,890,501)**	**28,049,018**
Cash flows from financing activities		
Proceeds from issue of redeemable units of participation,	8,075,658	229,500
Payment from redemption of redeemable units of participation	(6,841,328)	(25,930,446)
Net cash flow provided by/(used in) financing activities	**1,234,330**	**(25,700,946)**
Net (decrease)/increase in cash and cash equivalents	(43,656,171)	2,348,072
Cash and cash equivalents at the beginning of the year	85,540,204	83,192,132
Cash and cash equivalents at the end of the year	**41,884,033**	**85,540,204**

See note 4 to the financial statements

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS OF PARTICIPATION

For the year ended 31 December 2012

	Note	Number of shares	2012 €
Balance at the beginning of the year		**75,784**	**86,712,594**
Increase attributable to holders of redeemable units of participation resulting from operations for the year		-	9,583,384
Issue of redeemable units of participation during the year	11	6,884	8,075,658
Proceeds from redeemable units of participation during the year		(5,940)	(6,841,328)
Net assets attributable to holders of redeemable units of participation at the end of the year		**76,728**	**97,530,308**

	Note	Number of shares	2011 €
Balance at the beginning of the year		**97,969**	**117,341,861**
Decrease attributable to holders of redeemable units of participation resulting from operations for the year		-	(4,928,321)
Issue of redeemable units of participation during the year	11	202	229,500
Proceeds from redeemable units of participation during the year		(22,387)	(25,930,446)
Net assets attributable to holders of redeemable units of participation at the end of the year		**75,784**	**86,712,594**

See notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. FUND INFORMATION

Pelargos Japan Alpha Fund (the "Fund") is an open-ended investment fund incorporated on 19 June 2008. The first trade date for Class B units of participation was on trade date 11 July 2008. Initial subscriptions for Class A units of participation were received on trade date 27 January 2009. The Fund is not listed on any stock exchange. The units of participation are registered per investor.

The Fund will, under certain conditions, be able to issue and purchase units of participation. Issue and redemption of units of participation is possible on a dealing date, which is the first business day of each month. The Investment Manager holds the right to suspend redemptions in case of extreme market circumstances, when effectuating the lock up on Class B units of participation or in case of a significant size of the redeemed amount. The right to suspend redemptions is explained in more detail in the Prospectus of the Fund.

The Fund is a Fund for Joint Account, which means that there is a contractual obligation among the Investment Manager, the Trustee and the Participant. The Investment Manager was granted the license to manage investment funds under the Financial Supervision Act (Wft) as of 9 December 2010. As of 29 July 2011, the Fund has been registered under this license at The Netherlands Authority for the Financial Markets (AFM).

The Fund's objective is to achieve absolute returns in the long term. Funds that aim for absolute returns in the long term are characterised by a modest volatility and a low correlation with share indices in the region. Assets can be invested in a wide range of financial instruments. The Fund makes use of combinations of long and short positions in equities, as well as derivative positions. The Fund may use leverage to achieve the return targets or for liquidity reasons in case units of participation are redeemed. Assets will predominantly be invested in Japanese securities.

Since its incorporation and until year end 31 December 2012, the Fund appointed Citibank Europe plc as Administrator. The Administrator provides fund administration and transfer agency services to the Fund. Citibank Europe plc is based in Ireland and adheres to Irish AML rules and regulations.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance
The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), the Dutch Financial Supervision Act and Title 9 book 2 Dutch Civil Code.

(b) Basis of preparation
The financial statements have been prepared on a historical cost basis, except for financial instruments classified at fair value through profit or loss which have been measured at fair value.

The financial statements are presented in Euro.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilised in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

The Fund's functional and presentation currency is the euro. As most holders of Units of Participation, the Investment Manager and the Trustee are based and operate in Euro markets, the Fund's performance is evaluated and its liquidity is managed in euros.

New accounting standards adopted
The Fund has adopted the amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. Details of related parties are included in section Other Notes.

New standards, amendments and interpretations to existing standards which are relevant to the Fund and not yet effective
On 12 May 2011, the International Accounting Standards Board ("IASB") issued IFRS 13 Fair Value Measurement. This standard defines fair value, provides guidance for fair value measurement and sets out disclosure requirements. IFRS 13 does not introduce any new fair value measurements but explains how to measure fair value when it is required by other IFRS's. Some of the disclosures required, including the fair value hierarchy, were already introduced in March 2009 through an amendment to IFRS 7 Financial Instruments: Disclosures. Those disclosures have been relocated to IFRS 13. The standard is applicable for all accounting periods commencing on or after 1 January 2013 with early adoption permitted. No impact on the net asset value and the results of the Fund is expected from adoption of IFRS 13.

The effective date for mandatory adoption of IFRS 13 Financial Instruments will depend on the date it is adopted by the European Union. Early adoption will not be allowed before that date. As a result, the Fund has not early adopted this standard for the current reporting period. However, the Standard states that it is applicable for all accounting periods commencing on or after 1 January 2013 with early adoption permitted.

IFRS 7 Disclosures: Offsetting Financial Assets and Financial Liabilities
On 16 December 2011, the IASB and FASB issued common disclosure requirements that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The new requirements are set out in Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). As part of that project the IASB also clarified aspects of IAS 32 Financial Instruments: Presentation. The amendments address inconsistencies in current practice when applying the requirements.

The amendments to IFRS 7 apply to annual periods beginning on or after 1 January 2013 and interim periods within those periods.

IFRS 9 Financial Instruments
IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial asset. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Fund's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The Fund will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IAS 1 - Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI)
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Protected Cell's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

(c) Financial instruments
Financial assets and liabilities at fair value through profit or loss
The category of financial assets and liabilities at fair value through profit or loss are categorised as financial assets and liabilities held for trading. These include equities, options, futures, investment funds and liabilities from short sales of financial instruments.

These instruments are acquired or incurred principally for the purpose of generating a profit from short-term fluctuation in price. Derivatives are categorised as held for trading, as the Fund does not designate any derivatives as hedges for hedge accounting purposes as described under IAS 39.

Initial measurement
Purchases and sales of financial instruments are accounted for at trade date. Realised gains and losses on disposals of financial instruments are calculated using the first-in-first-out ("FIFO") method. Financial instruments categorised at fair value through profit or losses are measured initially at fair value Transaction costs incurred with an opening position in equities (opening buy in case of a long position or opening sale in case of a short position) are included in the net consideration. Transaction costs incurred with the closing of a position in equities (closing sale in case of a long position or closing buy in case of a short position) are included in the net consideration.

Subsequent measurement
After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments traded in active market is based on their quoted market prices or sourced from a data vendor, at the statement of financial position date without any deduction for estimated future selling costs. Financial assets are priced at their current bid prices, while financial liabilities are priced at their current offer price.

For all other financial instruments not traded in an active market and if a quoted market price is not available from a data vendor, the fair value of the financial instruments may be estimated by the Investment Manager using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Subsequent changes in the fair value of financial instruments at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

All of the Fund's investments in investment funds are held for trading, with changes in fair value reflected in the Statement of Comprehensive Income. Fair value is determined based on financial data supplied independently from a third party administrator.

Where the Fund has assets and liabilities with offsetting market risks it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the bid or offer price to the net position as appropriate.

(d) Recognition
The Fund recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

(e) Derecognition
The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

The Fund derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expires.

(f) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realised the asset and settle the liability simultaneously.

(g) Forward Foreign Currency Contracts
The fair value of open forward foreign currency exchange contracts is calculated as the difference between the contracted rate and the current forward rate that would close out the contract on the Statement of Financial Position date. Gains or losses on open forward foreign currency exchange contracts are included in the unrealised gain/(loss) foreign exchange on the Statement of Comprehensive Income.

(h) Futures Contracts
For open futures contracts, changes in the value of the contract are recognised as unrealised gains or losses by "marking to market" the value of the contract at the Statement of Financial Position date and are included in the Schedule of Investments at the year end. When the contract is closed, the difference between the proceeds from (or cost of) the closing transactions and the original transaction is recorded as a realised gain or loss and is included in net gain/(loss) on futures in the Statement of Comprehensive Income.

(i) Redeemable units of participation
The Fund has issued two classes of redeemable units of participation, Class A units and Class B units, which are redeemable at the participant's option. In accordance with IAS 32 such instruments give rise to a financial liability for the present value of the redemption amount.

The participants of Class B units of participation are not entitled to request the Fund to redeem all or part of their redeemable units of participation during the "lock-up" period of one year from the acceptance of subscriptions. After the "lock-up" period, the redeemable units of participation can be put back to the Fund on any dealing day for cash equal to a proportionate share of the Fund's net asset value.

(j) Subscription and redemption fees
A fee is charged upon each issue, transfer or redemption of a unit of Participation of up to 1.0%. The actual fee charged is set by the Investment Manager, is credited to the Fund and is charged to cover transaction related costs. In 2012, no subscription and redemption fee was charged.

(k) Interest income/expense and borrowing fee
Interest income and interest expense are recognised on an accruals basis in line with the contractual terms. The majority of the interest expense in the Statement of Comprehensive Income includes cash interest and borrowing fee. Borrowing fee is paid fee related to stock loan activities.

(l) Expenses
Expenses are recognised in the Statement of Comprehensive Income on an accrual basis accounted in the year that the costs are incurred.

(m) Dividend income and expense
Dividends are credited to the Statement of Comprehensive Income on the dates on which the relevant securities are listed as "ex-dividend". Income is shown gross of any non-recoverable withholding taxes, which is disclosed separately in the Statement of Comprehensive Income, and net of any tax credits. Dividend expense relating to equity securities sold short is recognised when the shareholders' right to receive the payment is established.

(n) Statement of Cash Flows
The Statement of Cash Flows is prepared according to the indirect method. For the purposes of the Statement of Cash Flows, financial instruments at fair value through profit or loss are included under operating activities. Cash flows from financing activities include proceeds from subscriptions and payments for redemptions of shares of the Fund.

(o) Foreign currency translation
Functional and presentation currency
Items included in the Fund's financial statements are measured and presented using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Euro, which reflects the Fund's primary trading activity, including the subscription into and redemption out of the Fund.

Foreign currency transactions
Monetary assets and liabilities denominated in currencies other than Euro are translated into Euro at the closing rates of exchange at each year end. Transactions during the year, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction. Foreign currency translation gains and losses are included in realised and unrealised gain and loss on investments.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(p) Cash and cash equivalents
Cash consists of cash at bank and cash equivalents consist of short-term investments available to the Fund with original maturities of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash is held with Goldman Sachs and UBS AG.

Margin accounts represent cash deposits with brokers, transferred as collateral against open futures, options or other securities. Other broker balances relate to cash balances with the Fund's Prime Broker and amounts receivable or payable for securities transactions.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as 'cash and cash equivalents'.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(q) Taxation
The Fund is organised as a fund for joint account ("Fonds voor gemene rekening") as defined in article 2 paragraph 2, of the Dutch Corporate Income Tax Act ("CITA") ("Wet op de vennootschapsbelasting 1969") and qualifies as a tax exempt investment fund ("Vrijgestelde Beleggingsinstelling") within the meaning of article 6a, CITA. Consequently, the Fund will be fully exempt from corporate income tax in The Netherlands.

All payments by the Fund under the participations can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

The issuance or transfer of a participation, and payments under a participation, will not be subject to value added tax in The Netherlands.

The subscription, issue, placement, allotment, delivery or transfer of a participation, will not be subject to registration tax, stamp duty or any other similar tax or duty payable in The Netherlands. Consequently the Fund will be fully exempt from corporate income tax in The Netherlands.

In some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income.

The Fund presents the withholding tax separately from the gross investment income in the Statement of Comprehensive Income. For the purpose of the Cash Flow Statement, cash inflows from investments are presented net of withholding taxes, when applicable.

(r) Significant accounting estimates and judgment in applying accounting policies
Application of the accounting policies in the preparation of the fund financial statements may require the Investment Manager to apply judgment involving assumptions and estimates concerning future results and other developments including the likelihood, timing or amount of future transactions or events.

The Fund has no significant accounting estimates that require complex estimates or significant judgment in applying its accounting policies.

(s) Events after statement of financial position date
The financial statements are adjusted to reflect material events that occurred between the statement of financial position date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the statement of financial position date. Material events that are indicative of conditions that arose after the statement of financial position date are disclosed, but do not result in an adjustment of the financial statements themselves.

Since year end there were no material events.

3. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Movement schedule investments

Equity securities	**2012**	**2011**
	€	**€**
Beginning market value 1 January	(2,231,762)	35,876,538
Purchase	338,040,527	259,812,280
Sale	(290,793,256)	(295,473,343)
Revaluation	10,571,828	(2,447,237)
Ending market value 31 December	**55,587,337**	**(2,231,762)**

Futures	**2012**	**2011**
	€	**€**
Beginning market value 1 January	5,257	(44,161)
Purchase	(1,002,920)	806,078
Sale	(177,530)	-
Revaluation	1,170,653	(756,660)
Ending market value 31 December	**(4,540)**	**5,257**

Options	**2012**	**2011**
	€	**€**
Beginning market value 1 January	28,479	103,561
Purchase	1,398,885	1,328,642
Sale	(498,305)	(313,956)
Revaluation	(489,451)	(1,089,768)
Ending market value 31 December	**439,608**	**28,479**

Total	**2012**	**2011**
	€	**€**
Beginning value 1 January	(2,198,026)	35,935,938
Purchase	338,436,492	261,947,000
Sale	(291,469,091)	(295,787,299)
Revaluation	11,253,030	(4,293,665)
Ending market value 31 December	**56,022,405**	**(2,198,026)**

As at 31 December 2012 and 2011, listed equity securities at fair value through profit or loss are recorded at fair value based on quoted market prices in active markets.

	2012 €	2011 €
Net gain or loss on financial assets and financial liabilities at fair value through profit or loss*:		
Realised	4,282,950	4,715,301
Unrealised	6,970,080	(9,008,966)
Total	**11,253,030**	**(4,293,665)**

*The movement of €34,244 between the 2011 figures in comparison with the 2011 annual report within the unrealised and realised gain/losses relates to the fact that the fund has a new fund administration system which employed a different methodology for the disposal of financial instruments and the calculation of realised and unrealised gains and losses. This has no impact on the net asset value per unit of participation.

4. CASH AND CASH EQUIVALENTS

Cash represents short-term funds available to the Fund.

	2012 €	2011 €
Cash at broker	39,842,784	85,166,691
Margin accounts	2,041,249	373,513
	41,884,033	**85,540,204**

Cash at broker balances relate to cash balances with the Fund's Prime Broker. Margin accounts represent cash deposits with brokers, transferred as collateral against open futures, options or other securities.

The prime broker calculates the maximum amount to be lent on the basis of all long and short securities held at the prime broker; this is called the total margin requirement. The Fund does not provide individual securities as collateral for each individual short security transaction. The total short position is taken into account in the calculation of margin requirement. The total amount of margin requirements with the Fund's Prime Brokers were €31,272,961 (31 December 2011: €24,236,696) with Goldman Sachs and €25,876 (31 December 2011: € Nil) with UBS AG at 31 December 2012.

5. AMOUNTS DUE FROM/(TO) BROKERS

Amounts receivable from and payable to brokers include cash balances with the Fund's Prime Broker and amounts receivable or payable for securities transactions that have not settled at the year end. Certain amounts of this cash results from the proceeds of trading securities sold short and may therefore be subject to withdrawal restrictions until such time as the securities are purchased by the Fund. The Fund has also purchased securities on margin and the related margin balances are secured on certain of the Fund's investments in securities.

	2012 €	2011 €
Balances due to brokers	(934,300)	(5,606,941)
Balances due from brokers	1,587,020	8,990,574
Amounts due from brokers	**652,720**	**3,383,633**

6. FEES AND EXPENSES

Management fee

The management fee is charged to the Fund and is credited to the Investment Manager. The management fee is levied once a month. The management fee is set as an annual percentage of 1.5% of the gross asset value (GAV) for Class A units of participation and 1.0% of the GAV for Class B units of participation (before deduction of the accrued performance fee). The management fee is calculated each month as one twelfth (1/12) part of the annual management fee on the GAV of the Class in question on the last business day of each month. The fee is payable, in arrears following the completion and finalisation of each month end net asset value. Management fees of €937,471 (2011: €1,096,695) were incurred for the year ended 31 December 2012, of which € 83,618 (2011: €71,852) was payable at 31 December 2012.

Performance fee

The performance fee is charged on a unit by unit basis and is credited to the Investment Manager. The performance fee is calculated and accrued for in each net asset calculation as at each month end.

The performance fee is equal to 20% of the annual increase in the net asset value of the capital of Class A units of participation. The performance fee is 15% of the annual increase in the net asset value of the capital of Class B units of participation.

The performance fee will be calculated on the basis of an annual period from calendar year end to calendar year end. In a year of introduction of a new Class in a specific currency, the performance fee will be based on the period from introduction date to calendar year end. A high watermark applies.

Performance fee of €971,696 (2011: Nil) were incurred for the year ended 31 December 2012, of which €971,696 (2011: Nil) was payable at 31 December 2012.

Performance fee – Equalisation
The performance fee is calculated according to the "equalisation" method, which means that each Participant pays a fee that truly corresponds to the increase in value of the units of participation that he/she holds. Participations are subscribed to against the gross asset value per unit of participation. If the subscription price exceeds the high water mark (HW) on a dealing day, an equalisation credit is granted to the participant. Following the date of grant, the value of the equalisation credit fluctuates with the increase and decrease of the NAV. The equalisation credit will at no time turn into a negative value, and it will not increase beyond the value at the time of issue. By issuing participations against the value of the Participant's equalisation credit at the ultimate valuation day of the financial year of the Fund, the credit will be finally settled.

Conversely, a participant that acquires participations at a time that the HW exceeds the NAV per participation, at which point in time the GAV equals the NAV as no performance fee is accrued, will build up an equalisation deficit from the moment that the NAV per participation exceeds the subscription price. Any deficit will be finally settled by way of mandatory redemption of the equalisation deficit bearing Participations. The Investment Manager is entitled to the ensuing claim. Redemption will take place per the ultimate dealing day of the financial year of the Fund, or at redemption during the year. The equalization deficit as of 31 December 2012 amounted €28,011 (31 December 2011: €Nil)

Other costs charged to the assets of the Fund

	2012	2011
	€	€
Administration fees	55,955	43,078
Legal and tax advice fees	19,857	(30,701)
Audit fees	17,808	21,431
Trustee's fees	19,884	25,430
Other expenses	71,597	(7,009)
	185,101	**52,229**

Other expenses

	2012	2011
	€	€
Printing and stationary	-	(14,461)
Miscellaneous expenses	2,478	(11,845)
Subtotal other expenses (included in OCF)	**2,478**	**(26,306)**
Brokerage fees	69,119	19,297
Other expenses	**71,597**	**(7,009)**

Subscription and redemption fees
The Fund may upon issue and redemption of a unit of Participation charge a fee up to 1.0% of the then current Gross or Net Asset Value of a unit of Participation. These costs may be charged in order to cover the costs incurred in transactions related to subscription and/or redemption and are credited to the Fund. During 2012, the Fund charged a subscription and redemption fee of €Nil (2011: €27,720).

Ongoing Charges Figure
The Ongoing Charges Figure (OCF) is a ratio of the total ongoing costs to the average net assets of the Fund. Ongoing costs include cost of investment management and administration, plus other costs of running the fund, such as fees for custodians, regulators and auditors. Transaction costs of investments, interest expenses and performance fee are excluded from the calculation.

	Share Class	Share Class
2012	A	B
Ongoing Charges Figure	1.6%	1.1%

	Share Class	Share Class
2011	A	B
Ongoing Charges Figure	1.5%	1.0%

Transaction costs
The costs charged by brokers in relation to the purchase or sale of financial instruments form the main component of the cost of a transaction. In addition, transaction-related taxes and duties such as registration tax and stamp duties may apply. Transaction costs incurred with an opening position in equities (opening buy in case of a long position or opening sale in case of a short position) are included in the net consideration. Transaction costs incurred with the closing of a position in equities (closing sale in case of a long position or closing buy in case of a short position) are included in the net consideration.

The transaction costs amounted to €765,446 in 2012 (2011: €829,154).

Soft dollar arrangement
The Investment Manager may choose to allocate transactions to brokers with whom the Investment Manager has concluded a commission sharing agreement (CSA). A CSA is concluded with a view to allowing the Investment Manager to provide a better level of service to the Fund, with the aim of improving the results. Pursuant to a CSA, the broker receives a commission for executing a transaction that is split ('unbundled') into: 1) execution and 2) research. The sum of money received by the broker that is related to research is entered into a separate account and may be used by the Investment Manager in order to pay for certain services rendered by either the broker or by a third party. The Investment Manager will, however, at all times aim for best execution. CSAs may be concluded with more than one broker.

The Fund has entered into a CSA with Merrill Lynch in order to facilitate the purchase of generic-, macro-economic-, technical- and company specific research services from TIS Group, Marc Faber, GMI, QAS, Elliot Wave, Starmine and Capital IQ.

Comparison realised costs versus costs included in Prospectus
Article 123 paragraph 1 sub j of the Decree on the Supervision Conduct of Financial Enterprises (Bgfo) requires a comparison between the actual costs for the reporting year and the costs as mentioned in the Prospectus.

	Actual Costs	**Estimated costs Prospectus**
Management fee	€937,471	% of GAV: Class A=1.5% and Class B=1.0%
Performance fee	€971,696	% of annual increase NAV: Class A=20% and Class B=15%
Administrator fees	€55,955	Max 0.08% of NAV
Trustee fees*	€19,884	Maximum fee €32,500
Auditor's and advisor costs**	€37,665	Not Specified
Other costs***	€2,478	Not Specified

* Maximum charge amounts to €32,500 excluding VAT and indexation starting as of 2008.
** Auditor and advisor costs include audit fee, legal fee and cost of supervision. In 2012, the Fund is charged cost of supervision for the first time and these amounted € 10,207.
*** Other costs include miscellaneous expenses

Portfolio Turnover Rate
The Portfolio Turnover Rate indicates the turnover ratio of the Fund's portfolio. This rate is an indicator of how actively the investment portfolio is being altered as a consequence of investment decisions and is therefore a function of the investment policy and specifically gross exposure.

The Turnover Rate is calculated as follows:
[(Total 1 – Total 2) / X] *100
Total 1: the total amount of investment transactions (purchase and sale)
Total 2: the total amount of subscriptions and redemptions by Participants
X: average net asset value of the Fund

Portfolio Turnover Rate	**2012**	**2011**
	€	€
Securities purchase	422,651,338	300,498,092
Securities sale	379,275,989	323,876,170
Total securities transactions	**801,927,327**	**624,374,262**
Subscriptions participants	8,076,000	229,500
Redemptions particpants	6,841,328	25,930,446
Total movement in participations	**14,917,328**	**26,159,946**
Average net asset value	93,224,354	110,286,248
Turnover Rate	**844%**	**542%**

7. ACCRUED EXPENSES

Accrued expenses	**2012**	**2011**
	€	**€**
Administration fee	7,720	8,869
Legal and tax advice fees	16,150	6,500
Audit fees	15,620	15,000
Trustee's fees	6,860	6,000
Other accrued expenses	4,705	4,500
	51,055	**40,869**

Other accrued expenses	**2012**	**2011**
	€	**€**
Miscellaneous expenses	4,705	3,000
Printing and stationery	-	1,500
	4,705	**4,500**

8. INTEREST INCOME/EXPENSE AND BORROWING FEE

	2012	2011
	€	€
Interest income	47,732	685,410
	47,732	**685,410**

	2012	2011
	€	€
Interest expense	339,042	516,112
Borrowing Fee	343,719	388,363
	682,761	**904,475**

Borrowing fee in 2012 and 2011 is paid fee related to stock loan activities.

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

Risk management is an integral part of the investment and the operational process. Financial risk management encompasses all elements of the investment process. A number of risk management systems allow us to notice any deviations from intended positioning and targets. Operational risk management encompasses the four areas of potential losses: processes, systems, people and external events.

The Fund's investment objective is to preserve capital and then achieve absolute returns for Participants by investing in securities of Japanese Companies. The Fund aims to achieve strong risk adjusted returns without large exposure to the overall stock market and without taking high volatility single factor risks.

Financial instruments and associated risks
The Fund will primarily invest in a diversified portfolio consisting of long and short positions in listed equities. The Fund may utilise derivative financial instruments for the purpose of risk management and for potentially improving returns.

The nature and extent of the financial instruments outstanding at the statement of financial position date and the risk management policies employed by the Fund are discussed below.

The Fund is exposed to market risk (which includes equity risk, currency risk and interest rate risk), credit risk and liquidity risk arising from the financial instruments it holds. Each type of risk is discussed in turn below and qualitative and quantitative analyses are provided where relevant to give the reader an understanding of the risk management methods used by the Investment Manager.

Fair Value Estimation
Effective 1 January 2009 the Fund adopted the Amendments to IFRS 7 Financial Instruments: Disclosures, requires enhanced disclosures about financial instruments carried at fair value and liquidity risk.

Investments measured and reported at fair value are classified and disclosed in one of the following fair value hierarchy levels based on the significance of the inputs used in measuring its fair value:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the valuation date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs are inputs other than quoted prices in active markets included within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair value is determined through the use of models or other valuation methodologies. Level 2 inputs include the following:

a. Quoted prices for similar assets or liabilities in active markets.
b. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
c. Inputs other than quoted prices that are observable for the asset or liability (e.g. interest rate and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates).
d. Inputs that are derived principally from or corroborated by observable market data statistical by correlation or other means.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Fund's own assumptions about how market participants would be expected to value the asset or liability. Unobservable inputs are developed based on the best information available in the circumstances, other than market date obtained from sources independent of the Fund and might include the Fund's own data.

An investment is always categorised as level 1, 2 or 3 in its entirety. In certain cases, the fair value measurement for an investment may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and is specific to the investment.

The fair values of investments valued under Levels 1 to 3 are as follows:

Financial assets at fair value through profit or loss	**31 December 2012 €**	**Level 1 €**	**Level 2 €**	**Level 3 €**
Equity securities	93,986,553	93,986,553	-	-
Derivatives	684,562	-	684,562	-
Total	**94,671,115**	**93,986,553**	**684,562**	**-**

Financial liabilities at fair value through profit or loss	**31 December 2012 €**	**Level 1 €**	**Level 2 €**	**Level 3 €**
Equity securities sold short	(38,403,756)	(38,403,756)	-	-
Derivatives	(244,954)	-	(244,954)	-
Total	**(38,648,710)**	**(38,403,756)**	**(244,954)**	**-**

Financial assets at fair value through profit or loss	**31 December 2011 €**	**Level 1 €**	**Level 2 €**	**Level 3 €**
Equity securities	51,620,872	51,620,872	-	-
Derivatives	35,788	-	35,788	-
Total	**51,656,660**	**51,620,872**	**35,788**	**-**

Financial liabilities at fair value through profit or loss	**31 December 2011 €**	**Level 1 €**	**Level 2 €**	**Level 3 €**
Equity securities sold short	(53,852,634)	(53,852,634)	-	-
Derivatives	(2,052)	-	(2,052)	-
Total	**(53,854,686)**	**(53,852,634)**	**(2,052)**	**-**

Equity risk
Equity risk is the risk that the Fund is exposed to the volatility of the fair value of the equity securities it holds. The fair value of individual securities may fluctuate as a result of e.g. company specific news, broad market movements, interest rate risk or foreign currency movements. The Investment Manager continuously monitors the (potential) determinants of the value of the securities held and the total portfolio value. As such, risk management is an integral part of investment management which comprises security selection and portfolio construction. Frequently various stock, sector and country exposures are measured and managed against the norms which have been defined for those exposures. Further the overall portfolio is monitored using various (external) portfolio risk (optimizing) systems to monitor and manage market or style exposures.

The value of the securities the Fund holds are partly driven by general market movements. As the Fund has long and short positions in securities, the Fund aims to control its exposure to these general market movements. The following table represents management's best estimate of the effect on the Fund's total net assets due to a 25% change in the market equity price, with all other variables held constant.

The Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. The Beta of a portfolio can be measured by a regression of the portfolio return with the market return, i.e. the ex-post Beta. The Beta of a portfolio can also be measured as the weighted average of the Beta's of the underlying securities, i.e. the ex-ante Beta. Please note that the calculation of a Beta is based upon historical data. It therefore gives an insight in the co-movement of the portfolio with the market as a whole; such calculated Beta can be used as an estimate for the co-movement going forward. Significant differences may occur between the estimate and the co-movement that occurs next period.

The ex-post Beta for the Fund was 0.22 (2011: 0.25), calculated from a regression of the daily returns of the Fund on the MSCI Japan index , from January 1st up to December 31st). The ex-ante Beta measured at year end 2012 is 0.29 (2011: (0.04)). (The ex-ante Beta is measured against the MSCI Japan. Source: Goldman Sachs.)

31 December 2012

Market index	Ex-ante Beta	Change	Effect on net assets and profit	Change	Effect on net assets and profit
		%	€	%	€
MSCI Japan Index	0.29	25	11,129,946	(25)	(11,129,946)

31 December 2011

Market index	Ex-ante Beta	Change	Effect on net assets and profit	Change	Effect on net assets and profit
		%	€	%	€
MSCI Japan Index	(0.04)	25	(1,111,329)	(25)	1,111,329

If an investment portfolio of a fund is relatively concentrated, it is considerably dependent on volatility in specific equities (idiosyncratic risk). The Investment Manager has defined several guidelines to adhere to, with respect to maximum percentages held on a security and sector level. The portfolio of the Fund is fairly diversified as is illustrated by the percentages held as disclosed in the sector allocation. The long and short positions are showed separately as a percentage of the net asset value. The net exposure per sector is also stated as a percentage of the net asset value.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency (Euro).

Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the Euro. The Fund's currency risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures which are in place.

IFRS 7 considers the foreign exchange exposure related to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. The Fund however monitors the exposure on all foreign currency denominated assets and liabilities and hence, the table below has been prepared for monetary and non-monetary items combined to meet the requirements of IFRS 7.

The following table demonstrates management's best estimate of the sensitivity to a reasonable change in the foreign exchange rates, with all other variables being constant, of the most representative Fund's foreign currency exposures. The currency sensitivity below is based upon a movement of exchange rates and the direct currency exposures as a result of Fund holdings which are denominated in currencies other than Euro, the functional currency of the Fund. Please note that the table below is based upon the holdings as at the end of December 2012 and 2011; currency exposures continuously change.

The Fund has the possibility to hold and to manage currency exposures, but in principle will hedge significant exposures.

The sensitivity analysis for the currency exposures held by the Fund is based on the assumption of a 10% movement in the foreign exchange rates against the Fund's functional currency (Euro). The table below is based upon the breakdown of the assets and liabilities in the different currencies.

The total exposure to different currencies at 31 December 2012 was:

	Financial assets/ (liabilities) at fair value through profit or loss	Cash and amounts due from/ (to) brokers	Other assets/ (liablities)	Net currency exposure	In % of total net assets	+10% Movement	-10% Movement
	€	€	€	€	€	€	€
JPY	56,022,405	(48,624,177)	77,884	7,476,112	7.67%	747,611	(747,611)
USD	-	(597,425)	245	(597,180)	(0.61)%	(59,718)	59,718
Total	**56,022,405**	**(49,221,602)**	**78,129**	**6,878,932**	**7.06%**	**687,893**	**(687,893)**

The amounts in the tables are based on the financial assets and financial liabilities.

The currency rate as of 31 December 2012 is as follows:

	JPY	USD
FX/EUR	114.00	1.32

The total exposure to different currencies at 31 December 2011 was:

	Financial assets/ (liabilities) at fair value through profit or loss	Cash and amounts due from/ (to) brokers	Other assets/ (liablities)	Net currency exposure	In % of total net assets	+10% Movement	-10% Movement
	€	€	€	€	€	€	€
JPY	(2,198,026)	485,171	96,447	(1,616,409)	(1.86)%	(161,641)	161,641
USD	-	(348,044)	(26)	(348,070)	(0.40)%	(34,807)	34,807
Total	**(2,198,026)**	**137,127**	**96,421**	**(1,964,479)**	**(2.26)%**	**(196,448)**	**196,448**

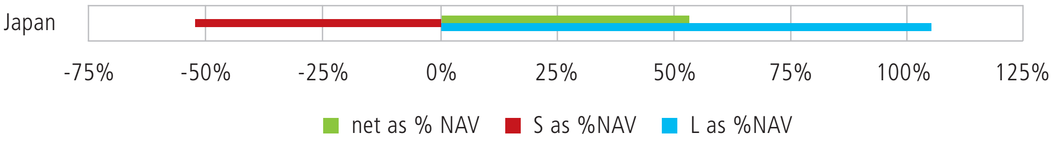
The amounts in the tables are based on the financial assets and financial liabilities.

The currency rate as of 31 December 2011 is as follows:

	JPY	USD
FX/EUR	99.88	1.30

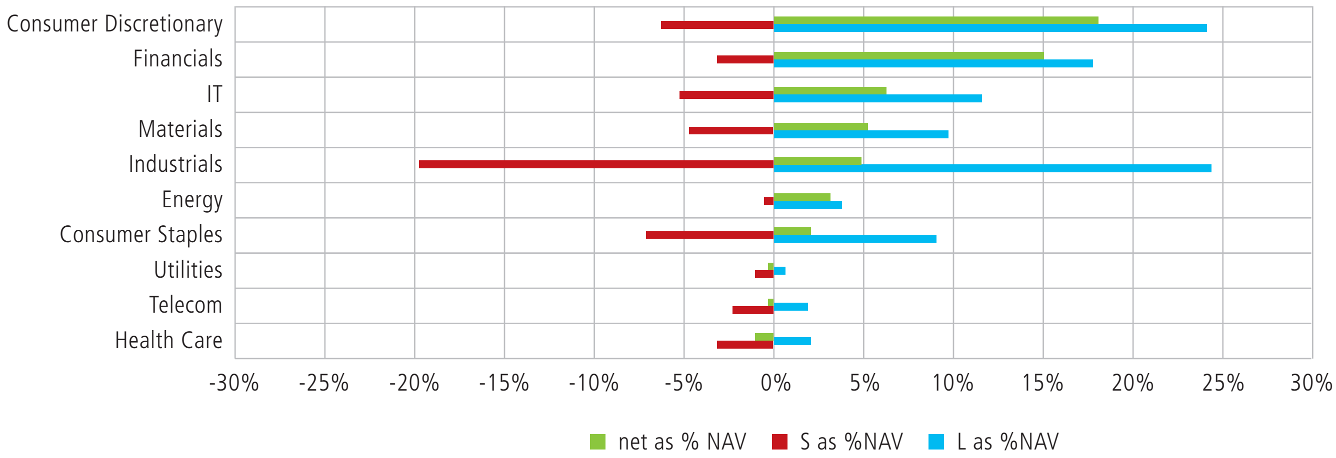
Concentration risk
The country allocation as a percentage of the NAV at the end of 2012 was as follows:

COUNTRY ALLOCATION PELARGOS JAPAN ALPHA FUND



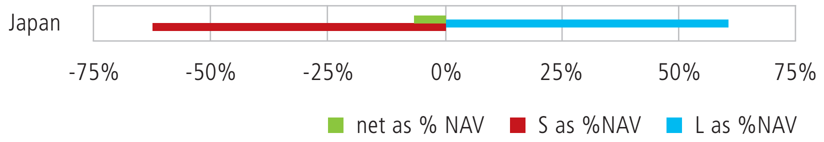
The sector allocation as a percentage of the NAV at the end of 2012 was as follows:

SECTOR ALLOCATION PELARGOS JAPAN ALPHA FUND



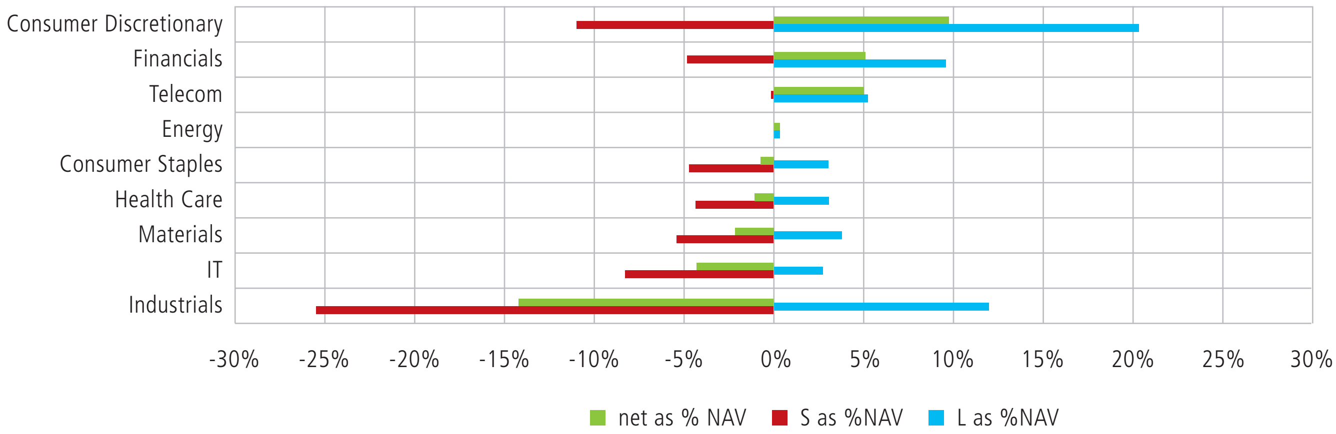
The country allocation as a percentage of the NAV at the end of 2011 was as follows:

COUNTRY ALLOCATION PELARGOS JAPAN ALPHA FUND



The sector allocation as a percentage of the NAV at the end of 2011 was as follows:

SECTOR ALLOCATION PELARGOS JAPAN ALPHA FUND



The top long and top short positions as a percentage of the NAV at the end of 2012 were as follows:

TOP LONG POSITIONS	As % NAV
LIXIL Group	4.0%
Ichigo Group Holdings	3.4%
JX HOLDINGS INC	3.3%
Sumitomo Mitsui Financial Gr	3.1%
Sumitomo Corp	2.9%
Daikyo Inc	2.5%
Fuji Media Holdings Inc	2.3%
Uny	2.3%
Acom	2.2%
Toyota Motor Corp	2.2%

TOP SHORT POSITIONS	As % NAV
Tobu Railway	2.5%
Kirin Holdings	2.2%
Yamato Holdings	2.0%
Daikin Industries	2.0%
Shiseido	1.9%
Fuji Electric Holdings	1.7%
Toto	1.6%
Nippon Building Fund Inc	1.6%
Thk	1.4%
Komatsu	1.2%

The top long and top short positions as a percentage of the NAV at the end of 2011 were as follows:

TOP LONG POSITIONS	As % NAV
NTT	5.0%
Toyota Motor	3.0%
Pola Orbis Holding	2.8%
Ichigo Group Holdings	2.7%
United Urban Investment	2.5%
Sankyo	2.5%
K'S Holdings	2.1%
East Japan Railway	2.1%
Sumitomo Mitsui Financial	1.9%
Autobacs Seven	1.8%

TOP SHORT POSITIONS	As % NAV
Shiseido	3.5%
OSG	3.0%
Fanuc	3.0%
TOTO	2.9%
Toray Industries	2.5%
Hino Motors	2.5%
All Nippon Airways	2.5%
Nikon Corp	2.5%
Komatsu	2.3%
Yaskawa Electric	2.3%

Interest rate risk

The majority of the Fund's financial assets are non-interest-bearing. At the statement of financial position date the Fund has not invested in deposits or fixed income securities. As a result, the Fund is subject to limited direct exposure to interest rate risk due to fluctuations in the prevailing levels of market interest rates. Note that changing levels of interest rates may influence the value of equity securities held.

Fund exposure to direct interest rate risk in Euro at 31 December 2012 was:

2012 Assets	**Within 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**No stated maturity**	**Total**
	€	**€**		**€**	**€**	**€**
Financial assets at fair value through profit or loss	-	684,562	-	-	93,986,553	94,671,115
Amounts due from brokers	1,587,020	-	-	-	-	1,587,020
Cash and cash equivalents	41,884,033	-	-	-	-	41,884,033
Total	**43,471,053**	**684,562**	**-**	**-**	**93,986,553**	**138,142,168**

2012 Liabilities	**Within 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**No stated maturity**	**Total**
	€	**€**		**€**	**€**	**€**
Financial liabilities at fair value through profit or loss	-	244,954	-	-	38,403,756	38,648,710
Amounts due to brokers	934,300	-	-	-	-	934,300
Total	**934,300**	**244,954**	**-**	**-**	**38,403,756**	**39,583,010**

Fund exposure to direct interest rate risk in Euro at 31 December 2011 was:

2011 Assets	**Within 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**No stated maturity**	**Total**
	€	**€**		**€**	**€**	**€**
Financial assets at fair value through profit or loss	-	7,309	-	-	51,649,351	51,656,660
Amounts due from brokers	8,990,574	-	-	-	-	8,990,574
Cash and cash equivalents	85,540,204	-	-	-	-	85,540,204
Total	**94,530,778**	**7,309**	**-**	**-**	**51,649,351**	**146,187,438**

2011 Liabilities	**Within 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**No stated maturity**	**Total**
	€	**€**	**€**	**€**	**€**	**€**
Financial liabilities at fair value through profit or loss	-	2,052	-	-	53,852,634	53,854,686
Amounts due to brokers	5,606,941	-	-	-	-	5,606,941
Total	**5,606,941**	**2,052**	**-**	**-**	**53,852,634**	**59,461,627**

Credit risk
Credit risk refers to the potential loss arising if a counterparty is unable to fulfill its financial obligations when due. The Fund is exposed to credit risk in terms of cash deposited at banks or prime brokers, (rehypothecated) securities held at prime brokers and derivatives with other financial institutions as counterparties.

The Fund's exposure in relation to financial instruments and other debtors is as follows at year end:

	2012	2011
	€	€
Derivatives	684,562	35,788
Amounts due from brokers	1,587,020	8,990,574
Dividends & Interest receivable	144,217	173,910
Cash at broker	39,842,784	85,166,691
Margin Accounts	2,041,249	373,513
Total	**44,299,832**	**94,740,476**

Most of the Fund's derivative contracts are listed or traded on one or more recognised exchanges where a Clearing House acts as regulator. OTC derivative transactions are executed with the Fund's Prime Brokers Goldman Sachs International and UBS AG. Long term ratings for Goldman Sachs at year end were A3 (2011: A1 (Moody's)) and A- (2011: A- (S&P)). Long term ratings for UBS AG at year end were A2 (2011: AA3) at Moody's and A (2011: A) at S&P.

To mitigate credit risk, two prime brokers have been legally appointed. Further, securities and cash are only held at, and derivatives are only executed with (investment grade) rated counterparties.

The Prime Brokers may acquire legal title to the Fund's assets up to an amount of more than 100% (max 140%) of the value of the (i) liabilities or (ii) net indebtedness, as the case may be, of the Fund towards the relevant Prime Brokers (rehypothecation). The Fund will have a right to the redelivery of equivalent assets from the Prime Brokers. In the event of an insolvency of either party, the obligation to redeliver will be given a cash value and will form part of a set off calculation against the amount the Fund owes the Prime Brokers.

To the extent that the Prime Brokers have rehypothecated assets in excess of the amount that the Fund owes, the Fund ranks as a general creditor for the excess following the operation of set-off, with the risk that such excess may not be reclaimed. The Fund continuously monitors the creditworthiness of its Prime Broker and has appointed multiple Prime Brokers.

To enable to short securities, the Fund borrows securities. At 31 December 2012, the Fund borrowed securities for an amount of €39,093,017 (2011: €49,673,186).

Liquidity risk
Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities.

The Fund is exposed to cash redemptions of redeemable units of participation for a monthly valuation day, with twenty business days previous notice. With regard to Class B units of participation this relates to redemption requests received after the one year lock up period. The Fund invests the majority of its assets in investments that are listed and traded in active markets and can be readily realisable as they are all listed on major Japanese stock exchanges.

The Fund may invest limited amounts of the portfolio in derivative contracts traded over the counter, which are not traded on a regulated exchange and may be illiquid. As a result, the Fund may not be able to liquidate quickly its investments in these instruments at their fair value to meet its liquidity requirements. If OTC derivative contracts are used, the counterparties will be rigorously selected and monitored.

The liquidity of all securities is continuously monitored by the Investment Manager.

The liquidity profile of the Fund's financial assets and financial liabilities based on undiscounted contractual maturities is illustrated as follows:

2012 Assets	**Within 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**No stated maturity**	**Total**
	€	**€**	**€**	**€**	**€**	**€**
Cash and cash equivalents	41,884,033	-	-	-	-	41,884,033
Financial assets at fair value through profit or loss	-	-	-	-	98,986,553	93,986,553
Derivatives	-	684,562	-	-	-	684,562
Amounts due from brokers	1,587,020	-	-	-	-	1,587,020
Total	**43,471,053**	**684,562**	**-**	**-**	**93,986,553**	**138,142,168**

2012 Liabilities	**Within 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**No stated maturity**	**Total**
	€	**€**	**€**	**€**	**€**	**€**
Financial liabilities at fair value through profit or loss	-	-	-	-	38,403,756	38,403,756
Derivatives	-	244,954	-	-	-	244,954
Amounts due to brokers	934,300	-	-	-	-	934,300
Total	**934,300**	**244,954**	**-**	**-**	**38,403,756**	**39,583,010**
Redeemable units of participation	-	-	97,530,308	-	-	97,530,308
Total	**934,300**	**244,954**	**97,530,308**	**-**	**38,403,756**	**1,028,850**
Gross settled derivatives						
Forward currency contracts						
Gross cash inflow	-	-	-	-	-	-
Gross cash outflow	-	-	-	-	-	-
Total undiscounted gross						
Settled derivatives inflow	-	-	-	-	-	-
Liquidity gap	**42,536,753**	**439,608**	**(97,530,308)**	**-**	**55,582,797**	**1,028,850**

2011 Assets	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	No stated maturity	Total
	€	€	€	€	€	€
Cash and cash equivalents	85,540,204	-	-	-	-	85,540,204
Financial assets at fair value through profit or loss	-	-	-	-	51,620,872	51,620,872
Derivatives	-	7,309	-	-	28,479	35,788
Amounts due from brokers	8,990,574	-	-	-	-	8,990,574
Total	**94,530,778**	**7,309**	**-**	**-**	**51,649,351**	**146,187,438**

2011 Liabilities	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	No stated maturity	Total
	€	€	€	€	€	€
Financial liabilities at fair value through profit or loss	-	-	-	-	53,852,634	53,852,634
Derivatives	-	2,052	-	-	-	2,052
Amounts due to brokers	5,606,941	-	-	-	-	5,606,941
Total	**5,606,941**	**2,052**	**-**	**-**	**53,852,634**	**59,461,627**
Redeemable units of participation	-	-	86,712,594	-	-	86,712,594
Total	**5,606,941**	**2,052**	**86,712,594**	**-**	**53,852,634**	**146,174,221**
Gross settled derivatives						
Forward currency contracts						
Gross cash inflow	-	-	-	-	-	-
Gross cash outflow	-	-	-	-	-	-
Total undiscounted gross						
Settled derivatives inflow	-	-	-	-	-	-
Liquidity gap	**88,923,837**	**5,257**	**(86,712,594)**	**-**	**(2,203,283)**	**13,217**

Liquidity analysis

The liquidity of the securities is continuously monitored as we want to be able to exit 50% of the assets in the Fund within three days, 95% in two weeks and 100% in one month time. We are well within limits.

The following two tables relate all equity positions of the Fund to the Average Daily Trading volumes (ADV). For example: the average long exposure of the Fund was 33.2% of the daily volume traded – measured as an average over 30 days trading volume. Our exposure to less liquid small caps inflates this average ADV, as a handful illiquid stocks have a disproportionate impact on the ADV. But liquidity of the fund on average is favorable as can be seen from table 3: more than 70% of our long book can be liquidated within one day, using a third of daily volume. In 3 trading days, over 92% of our long book can be sold and 100% of our short book can be covered.

Table 3: Liquidity profile of the Long book

	Average ADV	Max ADV*	Percentage of Portfolio in% of the ADV				
			0%-25%	25%-50%	50%-100%	100%-200%	>200%
Percentage of the past 30-days ADV	33.2%	511.4%	61.9%	21.3%	9.5%	1.1%	6.2%

*max long ADV is NEC Capital Solutions

Table 4: Liquidity profile of the Short book

	Average ADV	Max ADV**	Percentage of Portfolio in% of the ADV				
			0%-25%	25%-50%	50%-100%	100%-200%	>200%
Percentage of the past 30-days ADV	4.6%	23.3%	100.0%	0.0%	0.0%	0.0%	0.0%

**max short ADV is Fuji Electric

As discussed and shown in the tables above, the liquidity of our short positions is much better than the long ones. This has partially to do with the general more favorable valuations of small caps, but the main reason is risk management. Given the lower liquidity, small caps face the risk of a short squeeze once unexpected positive news flow comes out. That is a risk we are not willing to take. On top of that, the Japanese equity market was experiencing an exceptionally strong, liquidity driven rally in Q4 of 2012. In such an environment, the proverbial liquidity flood lifts all boats, especially the lower quality ones with large outstanding short balances. We remained focused on risk management and capital preservation: we shrunk our single stock short book and replaced it by hedging market risk via cheaper index options. Therefore, 100% of our short positions could be covered in 1 trading day.

10. DERIVATIVE CONTRACTS

Typically, derivative contracts serve as components of the Fund’s investment strategies and are utilised primarily to structure and hedge investments to enhance performance and reduce risk to the Fund. The derivative contracts that the Fund holds or issues were options and futures.

The Fund records its derivative activities on a mark-to-market basis. Unrealised gains or losses are valued in accordance with the accounting policy adopted by the fund and the resulting movement in the unrealised gain or loss is recorded in the Statement of Comprehensive Income.

As of 31 December 2012 and 2011, the following derivative contracts were included in the Fund's Statement of Financial Position at fair value through profit or loss:

	Fair value assets 2012	Fair value liabilities 2012
	€	€
Options	684,562	(244,954)
Futures contracts	-	(4,540)
Total derivative contracts	**684,562**	**(249,494)**

	Fair value assets 2011	Fair value liabilities 2011
	€	€
Options	28,479	-
Futures contracts	7,309	(2,052)
Total derivative contracts	**35,788**	**(2,052)**

The table below details the total derivatives exposure at 31 December 2012 and 2011. Gross exposure is the sum of absolute market value of all long and short positions. Net exposure is the balance of market value of all long and short positions. At year end 2012 the Fund held long and short positions in options and short position in futures contracts.

31-Dec-12	Net exposure	Gross exposure	Gross as % NAV
Equity	55,587,590	132,394,596	135.7%
Options	3,348,443	14,295,970	14.7%
Futures	(6,825,930)	6,825,930	7%
Total exposure	**52,110,103**	**153,516,496**	
Total as % of NAV	**53%**	**157%**	**157%**

31-Dec-11	Net exposure	Gross exposure	Gross as % NAV
Equity	(2,231,752)	105,473,001	121.6%
Options	(379,821)	379,821	0.4%
Futures	5,280,079	5,280,079	6.1%
Total exposure	**2,668,506**	**111,132,900**	
Total as % of NAV	**3%**	**128%**	**128%**

A futures contract is an agreement between two parties to buy and sell a security, index or currency at a specific price or rate at a future date. Upon entering into a futures contract, the Company is required to deposit with a broker an amount of cash or cash equivalents equal to a certain percentage of the contract amount. This is known as 'initial cash margin'. Subsequent payments ('variation margin') are made or received by the Funds each day, depending upon the daily fluctuation in the value of the contract. The daily changes in contract value are recorded as unrealised gains or losses and the Funds recognise a realised gain or loss when the contract is closed. Unrealised gains and losses on futures contracts are recognised in the Statement of Comprehensive Income.

The Fund purchases or sells put and call options through listed exchanges and the OTC markets. Options purchased by the Fund provide the Fund with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

11. REDEEMABLE UNITS OF PARTICIPATION

At inception of the Fund Class A and Class B units of participation were issued, both only in Euro. The (initial) investment required for a Participant in Class A is Euro 10,000. Subsequent subscriptions and redemptions have a minimum size of Euro 1,000.

Class B has a "lock up" of one year. The minimum (initial) investment for the 'seeding' investor', employees and employees of the directors is Euro 1,000 and for other Participants Euro 10,000. Subscriptions and redemptions have a minimum size of Euro 1,000.

Each participant is entitled to cast one vote for each unit of participation. One or more Participants who jointly hold at least 10% of the total number of Participations can request the Investment Manager to hold a meeting and can add topics to the agenda.

Transactions in units of participation for Class A and Class B for the year ended 31 December 2012 and year ended 31 December 2011 were as follows:

	Number of units of participation 31 December 2012	**Number of units of participation 31 December 2011**
Class A		
Units of participation balance at the beginning of the year	1,221.32	1,775.74
Issue of redeemable units of participation	-	136.21
Redemption of redeemable units of participation	(985.30)	(690.63)
Units of participation at the end of the year	**236.02**	**1,221.32**

	Number of units of participation 31 December 2012	**Number of units of participation 31 December 2011**
Class B		
Units of participation balance at the beginning of the year	74,562.01	96,192.86
Issue of redeemable units of participation	6,884.2	65.77
Redemption of redeemable units of participation	(4,953.98)	(21,696.62)
Units of participation at the end of the year	**76,492.23**	**74,562.01**

Capital management
As a result of the ability to issue and redeem shares, the capital of the Fund can vary depending on the demand for redemptions and subscriptions to the Fund. The Fund is not subject to externally imposed capital requirements and has no legal restrictions on the issue or redemption of redeemable shares beyond those included in the Fund's constitution.

The Fund's objectives for managing capital are:

1. To achieve long-term capital appreciation;
The Fund aims for returns which have a low correlation with the returns of the market index. To achieve this objective the Fund uses investment instruments and applies an investment and risk management policy as described in the prospectus.
2. To maintain sufficient liquidity to meet redemption requests as they arise.

Note 9 'Risk associated with financial instruments' explains equity risk, currency risk, interest rate risk, credit risk and liquidity risk in more detail.

Approved on behalf of the Trustee:

Stichting Bewaarder
Pelargos Japan Alpha Fund

Date: 24 April 2013

Approved on behalf of the Investment Manager:

Director
Pelargos Capital B.V

Date: 24 April 2013

OTHER NOTES

For the year ended 31 December 2012

1. DIVIDEND AND ALLOCATION OF RESULT

The Fund did not pay dividends in 2012. The result is included in the Net assets attributable to holders of redeemable units of participation.

2. RELATED PARTY TRANSACTIONS

Employees of directors and employees of Pelargos Capital B.V. held jointly 268.28 (2011: 318.81) Units of Participation Class B in the Fund. AEGON Levensverzekering N.V. is participant in the Fund with 9,950 (2011: 9,950) Units of Participation. AEGON Levensverzekering N.V. is a 100% subsidiary of AEGON Nederland N.V., which is a 100% subsidiary of AEGON N.V.

AEGON Investment Management B.V. held on behalf of 2 investment funds 66,273.95 (2011: 64,293.17) Units of Participation Class B and 99.80 (2011: 99.80) Units of Participation Class A. AEGON Investment Management B.V. is a 100% subsidiary of AEGON Asset Management Holding B.V., which is a 100% subsidiary of AEGON N.V.

AEGON N.V. holds 100% of the shares in AEGON Asset Management Holding B.V., which holds 68% (2011: 68%) of the shares in Pelargos Capital B.V.

3. PERSONAL INTERESTS OF DIRECTORS

In accordance with article 122 paragraph 2 Bgfo the Fund is required to list the total holdings in securities by the (employees of) directors in investments, which are also held by the Fund as of 1 January up to 31 December.

As of 31 December 2012 and 31 December 2011 the personal interests of the employees of directors in the Fund are as follows:

		Market Value
		€
Pelargos Japan Alpha Fund	2011	€ 280,236
	2012	€ 231,243

As of 31 December 2012 and 31 December 2011 there are no personal interests of the employees of directors, which were also held by the Fund.

4. VOTING POLICY

The Fund does not pursue an active voting policy.

5. SUBSEQUENT EVENTS

There are no subsequent events impacting the Fund subsequent to 31 December 2012.

6. APPROVAL OF THE FINANCIAL STATEMENTS

The Trustee and the Investment Manager approved the financial statements on 24 April 2013

To: the Board of Directors of Pelargos Capital B.V. as investment manager of Pelargos Japan Alpha Fund

INDEPENDENT AUDITOR'S REPORT

Report on the financial statements
We have audited the financial statements 2012 of Pelargos Japan Alpha Fund, The Hague, which comprise the statement of financial position as at December 31, 2012, the statement of comprehensive income, the statement of cash flows, the statement of changes in net assets attributable to holders of redeemable units of participation for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

Management's responsibility
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, the Dutch Financial Supervision Act and with Title 9 Book 2 of the Dutch Civil Code, and for the preparation of the investment manager's report in accordance with the Dutch Financial Supervision Act and with Title 9 Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the financial statements
In our opinion, the financial statements give a true and fair view of the financial position of Pelargos Japan Alpha Fund as at December 31, 2012, its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union, the Dutch Financial Supervision Act and with Title 9 Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the investment manager's report, to the extent we can assess, has been prepared in accordance with Title 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

The Hague, April 24, 2013

Ernst & Young Accountants LLP

signed by R.J. Bleijs