

Pelargos Japan Alpha Fund

April 2016



Fund Performance

The Pelargos Japan Alpha Fund Class B declined -0.19% in April. Since July 2008, inception-to-date (ITD), the fund is up +57.33% with a realized volatility of 7.2%, whilst the MSCI Japan is down -1.06% ITD with a realized volatility of 20.2%.

Fund Performance

| Share Class | NAV | MTD | YTD | ITD |
|-------------|----------|--------|-------|--------|
| Class A EUR | 1,378.34 | -0.20% | 3.13% | 37.83% |
| Class B EUR | 1,573.26 | -0.19% | 3.22% | 57.33% |

Market Environment

In April the MSCI Japan declined -0.4%. Whilst in March the broader market traded in a rather narrow range, volatility increased substantially in April.

At the start of the month, the market dropped -6%, followed by a 11% rally and a sharp correction in the last week (-5%). The pick-up in volatility was matched by equally astonishing moves in the Japanese yen.

Investor sentiment is and was extremely depressed with the index trading at close to historically low valuation multiples of 1.1x price-to-book. With all the whipsawing in equities, market participants were again looking for support from the Bank of Japan.

The hyper accommodative BOJ refrained from delivering yet another shot of ineffective QE hopium and an aggressive sell off in risk assets ensued. BOJ policy has become highly unpredictable and can be increasingly seen as a risk factor. Whereas it is their intention to be a put option underwriter in order to help prop up risk assets. It seems the policy maker's tool box is empty. Despite unprecedented interventions by the BOJ, the MSCI Japan declined -30% from its June 2015 highs to February 2016 lows.

In April, the core short book delivered great returns, down -3.5%. The core long book slightly underperformed the market, down -0.8%. April's small loss of -20bps is a result of our limited net exposure. The fund's performance and daily correlation with the market was -0.19 and the turnover was just 24% of net asset value (NAV). In our core books we hold 61 positions. The long book consists of more positions than the short book as we are willing to take liquidity risk in long positions.

Top & Bottom Industry Movers

| Industry Group | MTD | YTD | PB | PE |
|-------------------|-------|--------|-----|------|
| Energy | 5.6% | -15.3% | 0.7 | 14.2 |
| Telecommunication | 5.1% | 14.5% | 2.2 | 16.2 |
| Materials | 4.9% | -17.6% | 0.7 | 12.1 |
| Industry Group | MTD | YTD | PB | PE |
| Utilities | -5.2% | -6.9% | 0.9 | 10.1 |
| Retailing | -5.2% | 2.6% | 0.9 | 15.8 |
| Consumer Services | -4.1% | 6.6% | 1.7 | 16.3 |

Source: Bloomberg

General Statistics

| | |
|--------------------------------|---------|
| % Return long book | -0.8% |
| % Return short book | -3.5% |
| # Long stocks | 48 |
| # Short stocks | 13 |
| % Long stocks ↑ | 38% |
| % Short stocks ↓ | 69% |
| # Up days / Down days | 10 / 11 |
| Daily Correlation with MSCI JP | -0.19 |
| Turnover as % NAV | 24% |

Source: Factset

Largest Long & Short Holdings

| Longs | Shorts |
|--------------|--------------------|
| Acom | Nippon Express |
| Tokyu Corp | All Nippon Airways |
| Relia | Hino Motors |
| Takara Leben | Kikkoman |
| Ichigo Group | Nissin Foods |

Source: BNY Mellon Fund Services

Single Stock Activity

| Largest Buy & Buy Cover* | | Largest Sell & Short Sell** | |
|--------------------------|----|-----------------------------|----|
| Acom | B | Oriental Land | SS |
| Hitachi High Tec | B | LaSalle Logiport | S |
| Tokyu Corp | B | Pola Orbis | S |
| Murata Mfg | B | Ichigo Group | S |
| Ryohin Keikaku | BC | Chiyoda Co | S |

* B = Buy; BC = Buy Cover

Source: BNY Mellon Fund Services

** S = Sell; SS = Short Sell

Investment Strategy

This month there were a few significant changes in the largest long positions. We aggressively increased the Acom long position. We have followed the consumer lending space for many years and held long Acom positions at various times. The industry consolidated, bank related consumer lending is gaining market share and the (kabarai) claims have peaked a long time ago. Business environment for consumer lending is good as low rates support loan growth, and with current very low funding rates, margins are very healthy. Ichigo rallied 80% from its February lows and we decided to take profits and wait for a better risk/reward entry. Equally, Pola Orbis, a multi-year long position, saw its stock price appreciate 15% year-to-date and we decided to take more profit as the stock reached lofty valuation multiples.

We initiated a short position in Oriental Land. The stocks trades at 28x price-to-earnings with little to no earnings growth. It is a high margin, high return-on-investment business which makes it more difficult to short. Nevertheless, at current valuation the risk/reward is skewed to the downside and with a tight stop loss we short the stock for a contraction in valuation multiples.

Investment Strategy

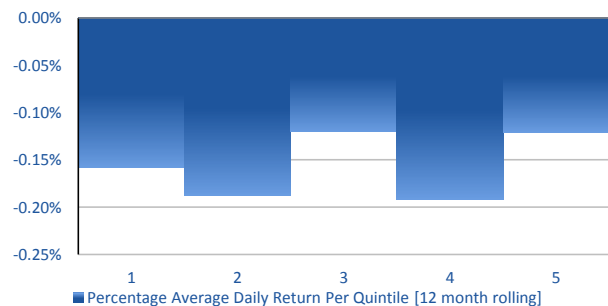
Relia (former Moshi Moshi Hotline), Japan's largest call center operator, is the top gainer for the month. This asset light, high return-on-equity business showed sluggish share performance last year (-6.7%) and finally bottomed out, gaining +7.1% year-to-date. Tokyo Ohka appreciated 11% and regained some of the ground lost in 2015. The stock has deteriorated sharply as semiconductor production volumes have slowed, but we remain optimistic about mid-term demand given that leading-edge processes will mean strong demand growth in the next few years. The stock remains cheap, trading 0.8x PBR and with net cash equivalent to >40% of the market cap, management has the ability to significantly raise shareholder returns.

Gulliver dropped 22% in April after having risen 18% year-to-date. This domestic, used car retailer has an aggressive growth strategy and revised down its mid-term plan due to increased costs of the network roll out. Semiconductor equipment and medical device maker Hitachi High Tech (HHT) fell 5% on disappointing, but conservative F3/17 earnings guidance. At 3.7x EBITDA and 11.6x PE, the stock trades at a significant discount to global peers in both SPE and medical devices. The outlook for both businesses remains positive. SPE demand is growing as chip-makers invest in new leading-edge lines, and HHT's new medical analysers are selling well, with more new products to launch this summer. With net cash equivalent to >40% of the market cap, downside is minimal, and the take-out by parent Hitachi remains a possibility.

Value Factor Performance*

| | P/E | EV/EBITDA | P/B | Div Yld | EV/IC | FCF |
|-----|-------|-----------|-----|---------|-------|-------|
| MoM | -0.8% | -1% | 2% | 0.7% | 0.3% | -0.7% |
| YoY | -6.9% | -6% | -3% | 6.0% | -2.1% | 0.1% |

Source: Factset*



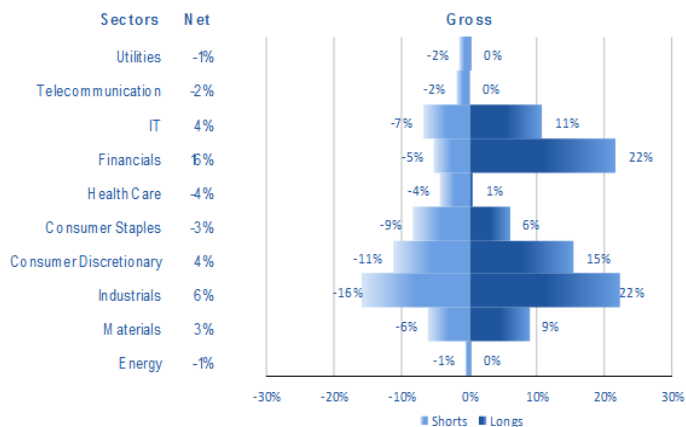
Source: Factset*

Top Gainers & Losers

| Gainers | | CTR* | Losers | | CTR* |
|--------------|---|------|-------------|---|-------|
| Relia | L | 0.3% | Gulliver | L | -0.3% |
| Metawater | L | 0.2% | Chiyoda Co | L | -0.3% |
| Hino Motors | S | 0.2% | Enplas Corp | L | -0.3% |
| Takara Leben | L | 0.2% | Hitachi HT | L | -0.2% |
| Tokyo Ohka | L | 0.2% | Technopro | L | -0.1% |

*CTR = Contribution

Source: Factset



Source: UBS PAS

Style Performance

On a daily basis we track a number of style factors based on our proprietary quant model. This helps us to detect dislocation within the market. In addition, it helps our understanding of style trends and investor's behavior in Japan.

The value factor showed mixed results in April. Price-to-Book performed better but is still down on a 12 month basis. Low Enterprise Value-to-Earnings Before Interest Tax Depreciation and Amortization (EV/EBITDA) and low Price-to-Earnings (P/E) stocks had poor results and both are down 6% and 7% respectively. High dividend yielding stocks continued to performed very well.

The EV/EBITDA of the long book is 9.0x compared to 10.2x for the short book. The dividend yield of the long book is 2.0% compared to 1.6% in the short book.

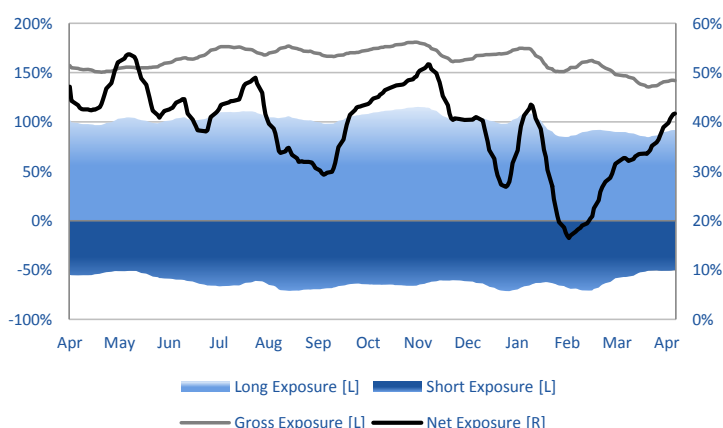
The price-to-book (P/B) spread remained similar to last month with the long book's P/B of 1.6x compared to 1.9x for the short book. Given our value approach we have a strong preference for cash rich companies. The overall market trades at a price-to-book of 1.1x. Our circle of competence, fundamentally restricted investment universe, includes only few financials. Because the very low-PB Japanese banks are not included, our own investment universe has a median PB of 1.3x and average PB of 1.7x.

As of end of April the momentum exposure (spread between long and short book) is significantly higher. On a 9-month basis the long book is down -2.5% and the short book down -10%.

Risk Measurement and Management

The chart below shows the rolling 12-month net and gross exposure for the fund. The exposures are shown as 10 (trading) days moving averages. At the end of April the gross exposure stood at 141%, the delta adjusted gross exposure was 161%, almost unchanged from the prior month. The net exposure stood at 42%. Including the long Nikkei225 put option strike 17000, the delta adjusted net exposure stood at 23%. The REIT exposure, consisting of Ichigo Hotel, Ichigo Office, Kenedix Office, Kenedix Retail and Heiwa REIT, amounts to 8% in total.

The ex-ante volatility based on daily data over the past 1 year was just 6.3% with an ex-ante beta of close to 0. Partly because of the REIT exposure, and the fund's lack of bank exposure, the beta of the long book was 0.87. Historically, we have had a preference for being long low beta stocks.



Source: BNY Mellon Fund Services*

Fund Overview

| | Long | Short |
|------------------------|-------|-------|
| Price to Earnings (PE) | 15.9 | 20.0 |
| EV/EBITDA | 9.0 | 10.2 |
| Price to Book (PB) | 1.6 | 1.9 |
| Dividend Yield | 2.0 | 1.6 |
| EV/IC | 1.1 | 1.6 |
| 1 month momentum | -0.8 | -7.3 |
| 6 month momentum | -2.5 | -7.8 |
| 9 month momentum | -2.5 | -10.0 |
| Earnings momentum (1M) | -2.8 | -11.8 |
| Earnings momentum (3M) | -5.6 | 1.7 |
| CFROI | 6.9% | 8.3% |
| Cash/MarketValue | 29.7% | 20.8% |

Source: Factset

Style Exposure

| | Long | Short |
|----------------|-------|-------|
| Beta | 0.87 | 0.95 |
| Volatility | 23.9% | 25.6% |
| Debt-to-equity | 5% | 35% |

Source: UBS PAS

Risk Statistics Delta Adjusted

| | |
|--|------|
| Volatility (ex-ante; 1yr daily data) | 6.3% |
| Volatility (ex-ante; 5yr monthly data) | 5.7% |
| Var (99%, 5 days) | 1.7% |
| Beta (ex-ante) | 0.07 |

Source: GS and UBS PAS

Outlook

Strategic Framework - Outlook 1st half of 2016

In our opinion, the six year bull cycle in global equities is over. Last year's correction was the initial leg down in a cyclical bear market. The FED induced policy divergence resulted in universal US dollar strength and a substantial drain on global US dollar liquidity. With such drastic tightening, commodity prices collapsed and related credit suffered. We think, this cycle is only mid-way and it will end with a major liquidity event. Investors across asset classes are in the process of re-pricing risk, not only economic risk but also liquidity risk. The period of central banks suppressing risk premia through monetary activism has come to a halt and the price we pay for ultra low interest rates is capital mis-allocation. In our opinion, the US FED's 'normalization' of interest rates is built on the faulty assumption that the US economy can stand on its own feet. Due to central banks' intervention it is impossible to distinguish noise from signal. For us, it seems that the US recovery is asset price led and therefore a phony construct, which easily unravels once asset prices revert. 2016 has all the hallmarks of a proper cyclical bear market.

Tactical assessment – Outlook May 2016

Investors threw in the towel in February and since then remain frozen, staring like deer in the headlights and trade with little conviction on daily newsflow. The media outlets express astonishment about the magnitude of the Q1 sell-off. Investors express their frustration about Abenomics failing and Kamikaze Kuroda adding more uncertainty. The Abenomics trade is indeed back to square one. Despite all the QE money spent, orchestrated currency debasement and hope of structural reform, Japanese equities are back to levels seen in May 2013. We have always expressed great skepticism about the perceived magic of monetary intervention. Money printing does not create wealth, it never has, it never will. Deflation is not a bad thing, it is, as is inflation, a form of distribution of wealth. The currency debasement indeed helped some type of equities, especially those with high export ratios, but in aggregate it is not a road to salvation. Please be reminded, that Japan's real GDP per capita growth over the past decade was as good as the one of the US and better than the European measure. We continue to operate under the assumption that the global economy is at risk of slipping into recession and the monetary mandarins positioning themselves for even more intervention. The thinking goes: "if it has not worked, we academics do more of it". The price action in gold is telling, investors globally seem to be giving up on the notion of normalization. Unintended consequences are compounding in the global system and "whilst policy makers have no endgame, markets do". With a current account surplus and deflationary tendency the Japanese Yen continues to appreciate, whilst policy makers are working on yet another 'monetary bazooka' to weaken it.

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Historic Fund Performance (Monthly)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Class A EUR | | | | | | | | | | | | |
| 2016 | 1.35% | 0.88% | 1.08% | -0.20% | | | | | | | | |
| 2015 | -1.28% | 4.85% | -0.32% | 3.21% | 2.54% | -1.63% | -3.07% | -3.05% | 2.42% | 1.83% | 2.16% | -1.62% |
| 2014 | -3.21% | -0.64% | -0.59% | -1.03% | -2.28% | 1.40% | 0.19% | -0.64% | 2.01% | -1.94% | -1.28% | 0.92% |
| 2013 | 4.99% | -0.58% | 6.55% | 6.10% | -1.05% | -0.78% | 0.26% | -0.91% | 1.08% | -0.79% | 1.35% | 1.61% |
| 2012 | -1.43% | 3.77% | 1.31% | -1.26% | -3.88% | 1.72% | 0.79% | 0.89% | 1.28% | 0.54% | 2.53% | 3.78% |
| 2011 | 0.84% | -0.06% | -1.56% | 0.10% | -0.19% | 0.38% | -0.01% | -3.68% | 0.64% | -0.41% | -2.64% | 1.64% |
| 2010 | 0.65% | -0.25% | 3.27% | 3.16% | -2.71% | -1.27% | 1.12% | -0.39% | 0.82% | 1.03% | 1.28% | 1.75% |
| 2009 | 0.35% | 1.62% | -0.76% | -0.71% | 0.98% | 1.03% | -1.84% | 2.07% | -1.61% | -0.40% | -3.37% | 3.19% |

Class B EUR

| | | | | | | | | | | | | |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 2016 | 1.27% | 0.92% | 1.18% | -0.19% | | | | | | | | |
| 2015 | -1.24% | 4.89% | -0.27% | 3.25% | 2.57% | -1.67% | -2.94% | -3.01% | 2.46% | 1.88% | 2.06% | -1.42% |
| 2014 | -3.16% | -0.60% | -0.56% | -0.99% | -2.24% | 1.44% | 0.23% | -0.60% | 2.06% | -1.89% | -1.24% | 0.96% |
| 2013 | 5.35% | -0.58% | 6.98% | 6.48% | -1.07% | -0.78% | 0.31% | -0.92% | 1.18% | -0.80% | 1.46% | 1.73% |
| 2012 | -1.38% | 3.81% | 1.35% | -1.21% | -3.83% | 1.76% | 0.84% | 0.93% | 1.32% | 0.58% | 2.50% | 4.06% |
| 2011 | 0.93% | -0.03% | -1.55% | 0.14% | -0.14% | 0.42% | 0.03% | -3.63% | 0.69% | -0.38% | -2.60% | 1.68% |
| 2010 | 0.73% | -0.23% | 3.52% | 3.39% | -2.83% | -1.31% | 1.23% | -0.37% | 0.91% | 1.13% | 1.40% | 1.89% |
| 2009 | 2.07% | 1.67% | -0.73% | -0.67% | 1.34% | 1.13% | -1.93% | 2.24% | -1.68% | -0.39% | -2.99% | 2.84% |
| 2008 | | | | | | | 0.96% | -1.35% | 1.40% | 3.44% | 0.52% | 1.39% |

Historic Fund Performance (Yearly)

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--------------------|-------|-------|--------|--------|--------|--------|-------|-------|-------|
| Class A EUR | 3.13% | 5.81% | -6.99% | 18.86% | 10.24% | -4.96% | 8.66% | 0.36% | |
| Class B EUR | 3.22% | 6.36% | -6.52% | 20.57% | 10.95% | -4.48% | 9.67% | 2.75% | 6.46% |

Fund Facts

| | |
|-----------------------------------|------------------------------|
| Investment Manager | Pelargos Capital |
| Legal Status | FGR (fund for joint account) |
| Fiscal Status | VBI (tax exempt) |
| Dividend Policy | Reinvestment |
| Base Currency | EUR |
| ISIN Class A EUR | NL0009051887 |
| ISIN Class B EUR | NL0001118015 |
| Inception Date Class A EUR | January 2009 |
| Inception Date Class B EUR | July 2008 |

Company Facts

| | |
|------------------------|---------------|
| Firm AUM in EUR | € 207,253,096 |
| Firm AUM in USD | \$237,325,520 |

Portfolio Managers

Richard Dingemans
Michael Kretschmer

Fund Description

| | |
|-----------------------------|---|
| Investment Strategy | Equity Long/Short |
| Investment Style | Value with a twist |
| Investment Objective | Capital appreciation through investing in long/short positions in Japanese securities |

Fund Facts

| | |
|---|---|
| Fund Size in EUR | € 91,260,100 |
| Fund Size in USD | \$104,501,941 |
| Participations Outstanding Class A | 236 |
| Participations Outstanding Class B | 57,800 |
| Minimum Subscription Class A | EUR 10,000 |
| Minimum Subscription Class B | EUR 10,000 |
| Dealing Day | First business day of each month |
| Subscription | Any dealing day, 5 business days notice |
| Redemption | 15 business days notice |
| Management Fee Class A | 1.5% |
| Management Fee Class B | 1.0% |
| Performance Fee Class A | 20% subject to High Watermark |
| Performance Fee Class B | 15% subject to High Watermark |
| Early Redemption Fee | max 1% (accrues to Fund) |
| Lock-up Class B | 1 year |

Service Providers

| | |
|----------------------|-------------------------------------|
| Prime Brokers | UBS AG, Goldman Sachs International |
| Administrator | BNY Mellon Fund Services |
| Accountant | PricewaterhouseCoopers |
| Legal | De Brauw Blackstone Westbroek N.V. |
| Title Holder | SGG Netherlands N.V. |
| Depository | Bank of New York Mellon |

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