

Fund Performance

The Pelargos Japan Alpha Fund Class B appreciated +1.18% in July. Since July 2008, inception-to-date (ITD), the fund is up +55.80% with a realized volatility of 7.1%, whilst the MSCI Japan is up +18% ITD with a realized volatility of 19%.

Fund Performance

| Share Class | NAV | MTD | YTD | ITD |
|-------------|----------|-------|--------|--------|
| Class A EUR | 1,358.58 | 1.17% | -0.12% | 35.86% |
| Class B EUR | 1,558.01 | 1.18% | 0.14% | 55.80% |

Market Environment

July was yet another up-month for Japanese equities as the MSCI Japan appreciated +0.3% in Japanese Yen (JPY) terms. The long book strongly outperformed and appreciated by +2.2%, whilst the short book declined by -0.5%. A decent spread and especially the hit ratio in the long book was outstanding in July with 66% of long positions appreciating in price. Low price-to-book cyclicals performed best last month whilst defensives underperformed.

Quarterly earnings were surprisingly strong across the board with 60% of companies reporting positive surprises, whilst only 20% disappointed. Moreover, single stock price reaction to earnings announcements also increased significantly. Pairwise correlation peaked in the summer of last year and market participants are less macro and much more bottom-up focused. This is a great environment for fundamental, value oriented stock pickers of which not many are left in the Japanese investment space.

This month the systematic hedge book declined by -0.4% and contributed positively as well. Last month's turnover was rather low at 23% of NAV and with earnings announced we adjusted several position sizes and the turnover reached 38% of NAV. Daily correlation dropped significantly from 0.8 to 0.5. Same as last month, the cheapest stocks can be found in the cyclicals, which tend to be higher correlated with beta. Thus value stocks were positively correlated with beta, but to a lesser extent than during the prior month.

Top & Bottom Industry Movers

| Industry Group | MTD | YTD | PB | PE |
|-------------------|------|-------|-----|------|
| Materials | 5.6% | 12.0% | 1.0 | 13.7 |
| Consumer Services | 4.6% | 16.7% | 2.2 | 19.2 |
| Automobiles | 3.4% | -3.8% | 1.0 | 11.1 |

| Industry Group | MTD | YTD | PB | PE |
|----------------|-------|------|-----|------|
| Retailing | -4.1% | 0.5% | 1.1 | 16.7 |
| Utilities | -3.7% | 0.2% | 0.9 | 15.7 |
| Transportation | -3.4% | 1.1% | 1.1 | 14.9 |

Source: Bloomberg

General Statistics

| | |
|--------------------------------|---------|
| % Return long book | 2.2% |
| % Return short book | -0.5% |
| # Long stocks | 47 |
| # Short stocks | 12 |
| % Long stocks ↑ | 66% |
| % Short stocks ↓ | 33% |
| # Up days / Down days | 11 / 10 |
| Daily Correlation with MSCI JP | -0.21 |
| Turnover as % NAV | 38% |

Source: Factset

Top 10 gross positions

| | | | |
|-----------------|------|----------------|------|
| Nishimatsu Con. | 4.7% | Fanuc | 2.8% |
| Maeda Road | 3.2% | Fuji Media | 2.6% |
| Toshiba Plant | 3.1% | Mitsui Chem. | 2.6% |
| Sumco | 3.0% | Mitsui Fudosan | 2.5% |
| HIS | 2.8% | SMFG | 2.4% |

Source: BNY Mellon Fund Services

Single Stock Activity

| Largest Buy* | Largest Sell* |
|--------------|-----------------|
| Fanuc Corp | East Japan Rail |
| Sumco Corp | Japan Tobacco |
| SMFG | Megmilk Snow |
| Fuji Media | Yamazaki Baking |
| Nabtesco | Kikkoman Corp |

* B = Buy; S = Sell

Source: BNY Mellon Fund Services

Investment Strategy

Nishimatsu Construction remained the largest long position and the investment thesis remained unchanged. The underlying fundamentals are strong and the stock is inexpensive.

With Nishimatsu Construction, Maeda Road, Toshiba Plant System and HIS in the top five positions our high conviction is expressed in domestic situations which are largely insulated from global macro risk factors.

During the course of the month we increased positions in Fanuc and Sumco. We re-introduced long Sumco after its 20% drop from the May high into end-of-June low. The stock has tremendous earnings power and the pricing cycle is not over. The fundamental case remains rather appealing however it is a highly operationally geared business model.

Fanuc is an interesting situation, a superior business model that outperforms 95% of Japanese companies in terms of margins and returns-on-operating assets. As such the stock outperforms in the very long run. However, on a 5-year basis the stock has drastically underperformed the broader market despite improved shareholder return policy and a very solid growth outlook. The connected factory floor is the future operating model and Fanuc is at the center of that powerful investment trend.

Investment Strategy

Enplas is a longer term holding and our patience has finally paid off. The stock price jumped 33% in July as revenues accelerated and bottom-line earnings exploded. The company guided for earnings per share of JPY153 for the fiscal year and already achieved JPY78 in the first three months.

Taihei Dengyo increased 25% in July. There was only 1 broker covering the stock and due to the Nomura buy initiation, with 44% upside, the stock jumped 11% on the day of publication. Losses this month were again very muted.

Only one losing position stands out and that is long Mitsui Fudosan with -0.2%. The underlying fundamentals at Mitsui Fudosan are quite strong but the Japanese real estate sector is completely out of favor and as selling begets selling the stock unfortunately continued to drift down.

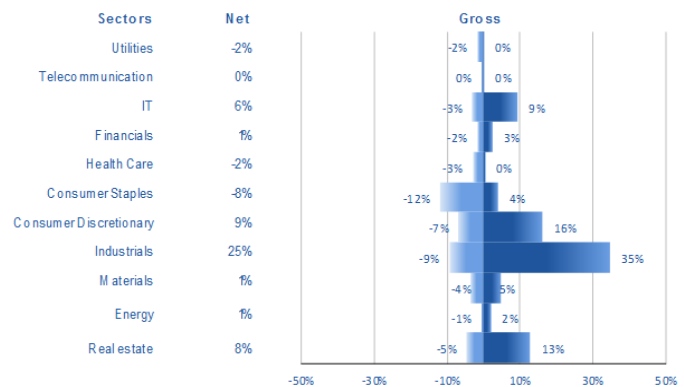
The sector positioning is a bottom-up process led by our value philosophy. As such the expensive Consumer Staples sector was a net short of -8% (-3% last month) and Industrials, where we find plenty of bargains, at max sector position size of +25% net long. We are very enthusiastic about the good old-fashioned old economy space. The old economy of Japan is transitioning towards a new generation of business leaders with increased focus for shareholder returns.

Top Gainers & Losers

| Gainers | | CTR* | Losers | | CTR* |
|------------------|---|------|------------------|---|-------|
| Enplas Corp | L | 0.4% | Mitsui Fudosan | L | -0.2% |
| Taihei Dengyo | L | 0.4% | SMFG | L | -0.1% |
| Nishimatsu Const | L | 0.3% | Tokyu Corp | L | -0.1% |
| Alpine Elec | L | 0.2% | Heiwa Real Estat | L | -0.1% |
| Nabtesco | L | 0.2% | Nippon Gas | L | -0.1% |

*CTR = Contribution

Source: Factset

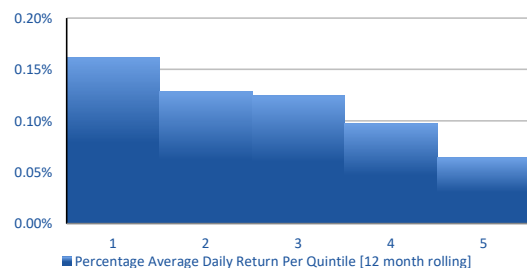


Source: UBS PAS

Value Factor Performance*

| | P/E | EV/EBITDA | P/B | Div Yld | EV/IC | FCF |
|-----|-----|-----------|-----|---------|-------|-----|
| MoM | 2% | 1% | 1% | 1% | 0% | 1% |
| YoY | 22% | 16% | 24% | 12% | 13% | 12% |

Source: Factset*



Source: Factset*

Style Performance

On a daily basis, we track a number of style factors through 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 rally continued into July. Almost all main factors were up for the month and with easy comparisons the year-over-year number looks impressive.

The outperformance of the value factor started in the summer of last year and peaked in December. The strong performance of value was very consistent across different types of definitions and sectors. Since December, the strong performance of value stocks has reversed somewhat and finally in July our value composite posted new highs. The value factor remained closely tied to global bond yields and the JPY.

The weighted average P/B of the long book was 1.6x compared to 2.0x for the short book. Price momentum exposure continued to be very high. On a 9-month basis, the long book's price momentum was +22.2% and the short book's price momentum was just +3.3%.

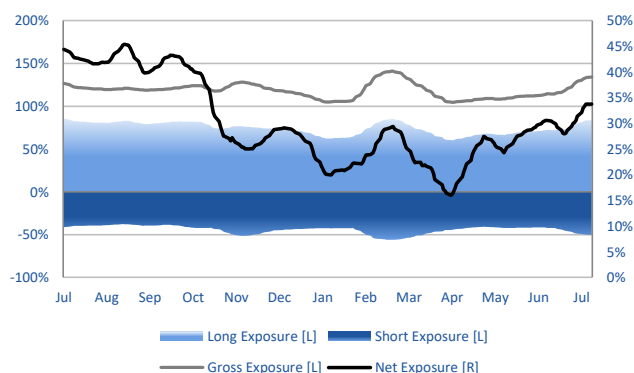
The P/E of the long book increased from last month's 15.6x to 16.3x which compared to 22x for the short book. The EV/EBITDA of the long book stood at 10.3 x compared to 12.6x for the short book. The dividend yield of the long book is 2.2% compared to 1.7% in the short book.

The CFROI's are quick similar despite the fact that our long holdings are almost debt free and the cash-to-market value amounts to 35%.

Risk Measurement and Management

The chart below shows the rolling 12-month net and gross exposure as 10 (trading) days moving averages.

During the past three months the performance improved and as our style has been rewarded we expanded the risk budget and at the end of July, gross exposure stood at 133% with a net exposure at 35%. With a higher risk budget and a significant beta spread between the long and short book the ex-ante beta increased from 4.9% to 5.6%. The ex-ante beta was decisively higher, but by historical measures very low which is mainly a function of collapsing spot volatility globally. Using monthly longer term data the ex-ante volatility stood at 7.1%. The ex-ante beta increased only marginally from 0.29 last month to 0.31 end of July.



Source: BNY Mellon Fund Services*

Fund Overview

| | Long | Short |
|------------------------|-------|-------|
| Price to Earnings (PE) | 16.3 | 22.0 |
| EV/EBITDA | 10.3 | 12.6 |
| Price to Book (PB) | 1.6 | 2.0 |
| Dividend Yield | 2.2 | 1.7 |
| EV/IC | 1.1 | 1.6 |
| 1 month momentum | 3.7 | -1.4 |
| 6 month momentum | 10.1 | 1.9 |
| 9 month momentum | 22.2 | 3.3 |
| Earnings momentum (1M) | 19.5 | 8.4 |
| Earnings momentum (3M) | 6.5 | 0.1 |
| CFROI | 8.5% | 8.9% |
| Cash/MarketValue | 35.3% | 16.9% |

Source: Factset

Style Exposure

| | Long | Short |
|----------------|-------|-------|
| Beta | 0.97 | 0.87 |
| Volatility | 10.7% | 10.3% |
| Debt-to-equity | 3% | 46% |

Source: UBS PAS

Risk Statistics Delta Adjusted

| | |
|---|------|
| Volatility (ex-ante; 3 months daily data) | 5.6% |
| Volatility (ex-ante; 5yr monthly data) | 7.1% |
| Var (99%, 5 days) | 1.0% |
| Beta (ex-ante) | 0.31 |

Source: GS and Nomura

Outlook

Strategic Framework - Outlook 2nd half 2017

In 2017 volatility in Japan on an index level collapsed, which is a global phenomenon. Japan traded in a very narrow range from December until end of March. In April, Japanese equities had a bit of a hick-up, which was much less than the usual 20% drop, and quickly rebounded. This low volatility is rather atypical for a historically extremely volatile market. Within that framework, value strategies underperformed significantly during the first half of 2017 and expensive, low volatility strategies outperformed.

For the first half of 2017 we expected that value stocks would continue to outperform as yields needed to adjust higher globally, be it due to better economic growth or central banks tapering. The timing of this thesis was certainly off and finally in June we saw a distinct improvement in our indicators and somewhat higher yields ignited the long overdue rally in our 'too-cheap-to-be-true' long positions.

Yes, global economic growth is far from buoyant, to say the least. We expect sub-par growth for the coming years and this continues to put pressure on yields. By association, through indiscriminately designed ETF baskets, bond-like equity outperforms cyclicals as yields head lower. However, this phenomenon offers a great opportunity as we find plenty of long stocks, which are outrageously inexpensive especially compared to the excessive valuation paid for the recession-proof consumer stocks. Even within the Japanese context there are pockets of structural growth. Global IT capex is booming driven by Internet-of-Things and increased chip penetration in everything, most noteworthy cars. The bottom-up research coverage in Japan remains anemic and therefore little attention is paid to the great earnings potential those companies have.

Tactical assessment - monthly outlook

This quarter's earnings results have confirmed the strong earnings trend in Japan. Global growth is slow but stable and despite the JPY strengthening against the US dollar, Japanese equities are doing fine. Again, not great but just fine. The late summer and autumn months tend to be tricky with a tendency for risk-off, but the underlying trends becomes increasingly clear. With global central banks on the way out, or at least considering it, investors will focus again on fundamentals rather than top-down, basket based macro trading. If tweaking the rules of game is more important than the game itself then players will focus on the guy, in our case central banks, changing the rules instead of how to best execute a viable game plan. This transition is not linear and most importantly, valuations instead of just simple quality characteristics will play a more important role again. One of the unintended consequences of central banks activism is the demise of active management.

| Historic Fund Performance (Monthly) | | | | | | | | | | | | | YTD |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | | |
| Class A EUR | | | | | | | | | | | | | |
| 2017 | 0.49% | -0.93% | -1.67% | -0.61% | 0.19% | 1.28% | 1.17% | | | | | | -0.12% |
| 2016 | 1.35% | 0.88% | 1.08% | -0.18% | -1.05% | -4.52% | 2.08% | -1.09% | -0.33% | 2.38% | 0.99% | 0.38% | 1.78% |
| 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% | 5.81% |
| 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% | -6.99% |
| 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% | 18.86% |
| 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% | 10.24% |
| 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% | -4.96% |
| 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% | 8.66% |
| 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% | 0.36% |
| Class B EUR | | | | | | | | | | | | | |
| 2017 | 0.56% | -0.92% | -1.63% | -0.57% | 0.23% | 1.32% | 1.18% | | | | | | 0.14% |
| 2016 | 1.27% | 0.92% | 1.18% | -0.16% | -1.08% | -4.33% | 2.12% | -1.05% | -0.29% | 2.38% | 0.88% | 0.39% | 2.07% |
| 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% | 6.36% |
| 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% | -6.52% |
| 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% | 20.57% |
| 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% | 10.95% |
| 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% | -4.48% |
| 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% | 9.67% |
| 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% | 2.75% |
| 2008 | | | | | | | 0.96% | -1.35% | 1.40% | 3.44% | 0.52% | 1.39% | 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 | € 462,220,118 |
| Firm AUM in USD | \$545,505,661 |

Portfolio Managers

Richard Dingemans
Michael Kretschmer

Fund Description

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

Contact Details

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Prinses Margrietplantsoen 43

Fund Facts

| | |
|---|---|
| Fund Size in EUR | € 185,104,406 |
| Fund Size in USD | \$218,457,609 |
| Participations Outstanding Class A | 473 |
| Participations Outstanding Class B | 112,337 |
| 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, 3 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 |

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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