

Fund Performance

The Pelargos Japan Alpha Fund Class B appreciated +0.88% in November. Since July 2008, inception-to-date (ITD), the fund is up +54.98% with a realized volatility of 7.3%, whilst the MSCI Japan is up +8.22% ITD with a realized volatility of 20.1%.

Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,355.18	0.99%	1.40%	35.52%
Class B EUR	1,549.79	0.88%	1.68%	54.98%

Market Environment

Global capital markets were all about macro events in November given President-elect Trump's victory early in the month. The MSCI Japan ended the month up 5.8%, but was down almost as much in the immediate aftermath of the election result.

Again, Japan was the most liquid global market open when the result hit the wires, and the "shock" of a Trump victory was taken negatively, with the Topix selling off -4.6% and yen/US\$ strengthening to 102.6/\$ by the Tokyo close. Pelargos has a clear, predetermined policy for dealing with sudden periods of extreme volatility. Given the potential significance of the election we were watching the events unfold live and were able to de-risk the portfolio as a Trump victory became clear. Of course, while the initial shock was taken negatively in Asia, European and US markets concluded that a Trump Presidency will be inflationary and positive for risk assets. We were therefore able to respond by quickly rebuilding our long exposure with relatively high beta stocks that allowed us to participate in the post-election rally.

Many of the investment themes of recent months, accelerated after the Trump victory, supporting our value-focused strategy. Cheap inflation proxies such as financials and real estate continued to rally. The rotation into cheap cyclicals and business models benefitting from higher rates started in late June / early July and continued through November. Value stocks again performed well, and were joined by those with significant exposure to a weaker yen.

Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Insurance	19.1%	14.6%	1.1	14.0
Banks	18.6%	-6.5%	0.5	10.7
Div. Financials	13.8%	-6.1%	1.1	18.2

Industry Group	MTD	YTD	PB	PE
Household Products	-2.9%	29.9%	2.8	26.2
Food Beverage	-1.8%	21.1%	1.5	20.6
Pharma	-0.5%	19.2%	1.5	24.6

Source: Bloomberg

General Statistics

% Return long book	4.5%
% Return short book	3.4%
# Long stocks	47
# Short stocks	13
% Long stocks ↑	83%
% Short stocks ↓	15%
# Up days / Down days	13 / 9
Daily Correlation with MSCI JP	0.91
Turnover as % NAV	46%

Source: Factset

Top 10 gross positions

Nishimatsu Const	3.1%	Sumco	2.5%
Pola Orbis	2.7%	Ryosan	2.4%
NBF	2.7%	Kose	2.4%
Tokyo Ohka Kogyo	2.6%	Toshiba Plant Sys.	2.4%
Relia	2.5%	Mitsui Soko	2.4%

Source: BNY Mellon Fund Services

Single Stock Activity

Largest Buy & Buy Cover*		Largest Sell & Short Sell**	
Pola Orbis	B	Murata Mfg	S
Nippon Gas	B	Honda Motor	S
Kikkoman Corp	BC	Japan Tobacco	SS
Shin-Etsu Chemical	B	Ichigo Group	S
Nishimatsu Const	B	Oriental Land	SS

* B = Buy; BC = Buy Cover

Source: BNY Mellon Fund Services

** S = Sell; SS = Short Sell

Investment Strategy

The core value book consists of 47 long positions and 13 short positions. Given the macro events in November, the fund saw more significant turnover than usual. Some of the largest positions of recent months were scaled back, with a refocus on being long cheap, value stock with relatively high beta, and short expensive defensives, particularly fixed income proxies which are being punished as global yields rise. In many cases, we have been able to express our views by expanding existing positions.

We again increased the short position in Kose, and we are still convinced Pola Orbis stock is a better proposition, because Pola Orbis' earnings power is more attractive. We added to the position in November.

We entered a new short position in Japan Tobacco after meeting with the company. The tobacco price hikes of recent years have been priced in to the stock and the company's promotion of e-cigarettes will have a small, but negative impact on margins.

Investment Strategy

November's Top Gainers & Losers were heavily affected not only by the market's extreme volatility over the month, but also by our trading. We sharply reduced our exposure to yen-sensitive component maker Murata Manufacturing given the need to de-risk into the Trump volatility, and this resulted in a loss. But we quickly rebuilt long-exposure by adding to existing positions cheap, high-beta momentum stock such as Sumco, Sumitomo Metal Mining, Resona, and Mitsui Fudosan, all of which made a significant contribution to the month's performance. We added considerably to our long position in Nishimatsu Construction in November, and that also made a significant positive contribution.

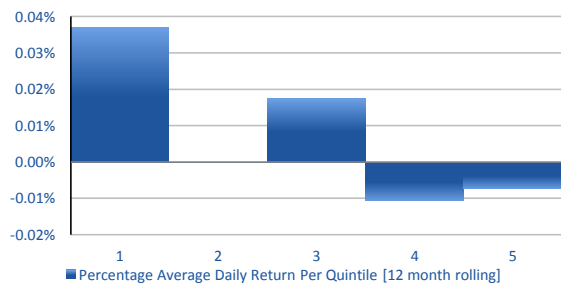
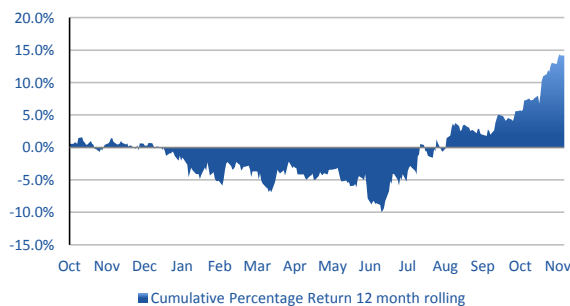
The fundamentals for Tokyo Ohka have been strong for some time now and the stock performed strongly in in November as the market became increasingly optimistic about the outlook for semiconductor volumes.

As a factor, momentum worked negatively as well as positively in November. We have been successfully holding condo developer Takara Leben, and office redeveloper Ichigo Group for several years. However both stocks peaked recently compared to the market, after having avoided much of the market's weakness in 2H CY15 and 1H CY16. Profit taking in recent months continued in November. We continue to see significant long-term upside for both.

Value Factor Performance*

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MoM	3.7%	1%	6%	3.2%	2.7%	1.5%
YoY	4.2%	5%	13%	12.6%	6.2%	9.2%

Source: Factset*



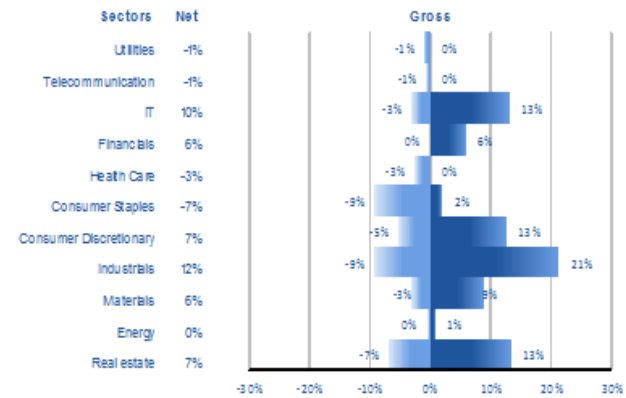
Source: Factset*

Top Gainers & Losers

Gainers		CTR*	Losers		CTR*
Sumco Corp	L	0.4%	Murata Mfg	L	-0.3%
Nishimatsu Const	L	0.4%	Takara Leben	L	-0.2%
Sumitomo Met Mi	L	0.3%	Nippon Express	S	-0.2%
Resona Holdings	L	0.3%	Ichigo Group	L	-0.2%
Mitsui Fudosan	L	0.2%	Honda Motor	L	-0.1%

*CTR = Contribution

Source: Factset



Source: UBS PAS

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 outperformance of the value factor which started last summer, continued in November, with momentum accelerating after the Trump win. The performance of value was very consistent across the different types of definitions and sectors. Most value factors are now showing strong momentum, and most expensive sectors are consistently underperforming cheap sectors. In previous newsletters we have commented extensively about the gross mispricing of cyclicals against defensives and the reversal of this misallocation is in full swing. It has also been joined by the strong outperformance of cheap cyclicals.

The P/E of the long book is 16.7x compared to 23.4x for the short book. The EV/EBITDA of the long book is 7.1x compared to 11.4x for the short book. The dividend yield of the long book is 2.2% compared to 1.6% in the short book.

The weighted average P/B of the long book is 1.5x compared to 2.2x for the short book. The cheapest P/B stocks can be found in the financials sector. However, because we restrict our investment universe to what we deem knowable and comprehensible we only follow a few banks and insurance companies.

Price momentum exposure has increased significantly. On a 9-month basis, the long book is up 22.6% and the short book up 1.7%.

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.

Little has changed in terms of net and gross exposure. At the end of October, the gross exposure stood at 128%, the delta adjusted gross exposure was also 128%. The net exposure stood at 25%.

The ex-ante volatility based on daily data was 7.5% with an ex-ante beta of 0.28. In stark contrast to prior years, the beta of the long book is higher than the short book. As explained above we favor long positions in cheap, cyclical stocks and short expensive defensives.

Fund Overview

	Long	Short
Price to Earnings (PE)	16.7	23.4
EV/EBITDA	7.1	11.4
Price to Book (PB)	1.5	2.2
Dividend Yield	2.2	1.6
EV/IC	0.9	2.0
1 month momentum	6.3	0.8
6 month momentum	13.9	0.0
9 month momentum	22.6	1.7
Earnings momentum (1M)	14.2	10.0
Earnings momentum (3M)	4.5	8.0
CFROI	7.8%	10.2%
Cash/MarketValue	35.0%	15.1%

Source: Factset

Style Exposure

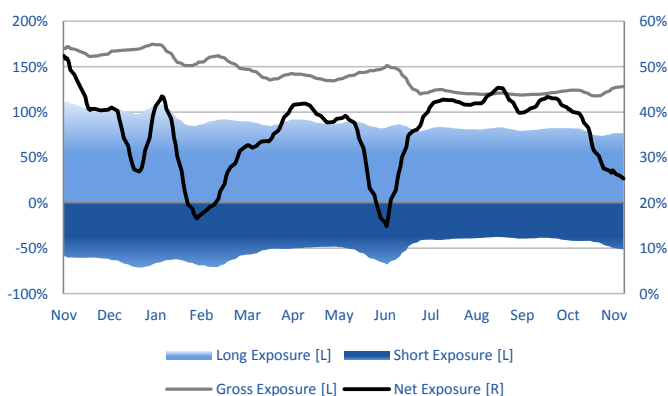
	Long	Short
Beta	0.94	0.70
Volatility	17.7%	14.7%
Debt-to-equity	12%	45%

Source: UBS PAS

Risk Statistics Delta Adjusted

Volatility (ex-ante; 3 months daily data)	7.5%
Volatility (ex-ante; 5yr monthly data)	6.6%
Var (99%, 5 days)	2.6%
Beta (ex-ante)	0.28

Source: GS and Nomura



Source: BNY Mellon Fund Services*

Outlook

Strategic Framework - Outlook 2nd half of 2016

During the first half of 2016 we operated under the assumption of a cyclical bear market. The three year bull run completed in August 2015. We argued for a cyclical bear market due to tightening conditions in global dollar liquidity. We correctly anticipated that the Fed would not be able to normalize interest rates as projected, because it is built on the faulty assumption of a self-sustaining US economic growth cycle. This thesis has materialized to a large extent and Japanese equities had the deepest correction since the global financial crisis, correcting 30% peak-to-through. In June, we witnessed a full fledged panic with Japanese equities in free fall and broad based capitulation. Our strategy is contrarian in nature, thus buying cheap assets and shorting overpriced assets. In July, dislocation within the market was at multi-decade highs and the potential alpha source an obvious one. During the summer months bond yields bottomed globally and one of the biggest style rotation in decades started. However, Japanese equity price action remained tightly correlated to currency moves and swings in liquidity conditions. Only after appreciating the pro-cyclical nature of president-elect Trump's economic policies, markets are starting to price in more structural US dollar strength vs the Japanese yen. Therefore it seems that the turning point in Japanese equities coincided with the low point in value vs growth stocks in early July 2016.

Tactical assessment - monthly outlook

We became more constructive on Japanese equities from a long beta perspective in October. Our expectation that "the best risk/reward opportunity lies in going long cheap cyclical assets and short expensive, defensive yield proxies, preferable stocks fitting the low-volatility theme" that we explained last month has proved accurate in November. As US rates move higher, the increased interest rate differential is mitigating the buying pressure on the JPY, and we are watching to see if JPY weakness accelerates as the market further appreciates BOJ's Kuroda commitment to keeping 10-year JGB rates at 0%. This could be the perfect storm for a rapid depreciation of the JPY against the US dollar and even the euro as ECB tapering becomes a possibility. Market participants are certainly not positioned for such an outcome. Higher Japanese equities would be inevitable. During 2016 we drastically increased the exposure towards low price-to-book specialty tech, tech chemicals and cheap capital goods companies. On the other side, the short book remains exposed to the expensive defensives. Now that the low-volatility theme and bond-like equity proxies have suffered heavy losses, it is only the beginning of the outflows to come and we remain convinced that value will continue to perform well.

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%	-1.03%	-4.52%	2.08%	-1.09%	-0.33%	2.38%	0.99%	
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%	-1.06%	-4.33%	2.12%	-1.05%	-0.29%	2.38%	0.88%	
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	1.40%	5.81%	-6.99%	18.86%	10.24%	-4.96%	8.66%	0.36%	
Class B EUR	1.68%	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	€ 220,303,591
Firm AUM in USD	\$233,279,473

Portfolio Managers

Richard Dingemans
Michael Kretschmer

Fund Description

Investment Strategy Equity Long/Short

Fund Facts

Fund Size in EUR	€ 93,222,532
Fund Size in USD	\$98,713,339
Participations Outstanding Class A	236
Participations Outstanding Class B	59,945
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.

Pelargos Japan Alpha Fund

November 2016



Investment Style	Value with a twist	Depository	Bank of New York Mellon
Investment Objective	Capital appreciation through investing in long/short positions in Japanese securities		

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