

Pelargos Japan Alpha Fund

September 2015



Fund Performance

The Pelargos Japan Alpha Fund Class B appreciated 2.46% in September. Since July 2008, inception-to-date (ITD), the fund is up 48.71% with a realized volatility of 7.4%, whilst the MSCI Japan is up 4.6% ITD with a volatility of 20.1%.

Market Environment

In September, the correction in global equity markets continued. The MSCI Japan dropped another -8.5% in Japanese Yen (JPY) terms. The JPY appreciated 1.1% and 1.4% against the US dollar and the euro respectively.

All sectors declined except for Food & Staples. The weakness was broad based and even interest rate sensitives did not hold up. The long book outperformed the broader market by a large margin, only down -2.5%. Volatility in global equity markets peaked in late August and remained at elevated levels with another spike into September month end. Investor anxiously awaited the Fed meeting. The FED's indecision and hesitance creates uncertainty and equity market participants are obsessed with the timing of the small but apparently significant 25bps rate increase. The FED decided to be very short term oriented or what the FED calls data dependent.

At the low point the Japanese market entered negative territory for the year. This is Japan how we know it. The equity market appreciated 20% up until mid-August and dropped 20% within a few weeks.

Economic data in Japan remains lackluster, GDP contracted -1.2% QoQ on an annualized basis and CPI fell 0.1% in August on low oil prices and weak domestic demand. S&P cut Japan's long-term credit rating by one level to A+.

Largest Long & Short Holdings

Longs	Shorts
Ryosan	Kikkoman Corp
Honda Motor	Nissin Foods
Pola Orbis	Nippon Express
Moshi Moshi	Hino Motors
Chiyoda Co	Komatsu

Source: Citi Financial Services

Single Stock Activity

Largest Buy & Buy Cover*		Largest Sell & Short Sell**	
Mcdonald's Holding	BC	Komatsu	SS
Unicharm	BC	Nippon Telegraph	S
Melco Holdings I	B	Itochu Corp	S
		Daiwa Secs Grp	S
		Hino Motors	SS

* B = Buy; BC = Buy Cover

Source: Citi Financial Services

** S = Sell; SS = Short Sell

Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,305.74	2.42%	3.38%	30.57%
Class A USD	958.21	2.45%	3.00%	-4.18%
Class A JPY	95,070	2.62%	3.05%	-4.93%
Class B EUR	1,487.06	2.46%	3.77%	48.71%

Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Food & Staples	0.2%	27.3%	1.7	20.3
Media	-2.4%	5.7%	1.5	17.7
Household Prod.	-3.2%	23.3%	2.3	31.6

Industry Group	MTD	YTD	PB	PE
Telecom	-18.1%	-2.4%	1.9	15.8
Insurance	-13.0%	8.6%	0.8	14.1
Semiconductors	-12.0%	-31.9%	1.0	11.9

Source: Bloomberg

General Statistics

% Return long book	-2.5%
% Return short book	-8.0%
# Long stocks	46
# Short stocks	12
% Long stocks ↑	28%
% Short stocks ↓	100%
# Up days / Down days	12 / 10
Daily Correlation with MSCI JP	0.09
Turnover as % NAV	17%

Source: Factset

Investment Strategy

The largest 5 long positions are unchanged compared to last month. Within the largest 5 short positions, we partially covered Keyence and Unicharm. While Hino Motors together with Komatsu inched up in the ranking.

In September, we closed the short position in McDonalds Japan. Fundamentally the short was set up for the right reason, however the stock did not react to the bad fundamental news at all. Therefore we exited the position at break-even after more than 1 year.

Turnover last month was very low with just 17% of NAV. The positioning of the portfolio delivered and behaved the way we expected it. The daily correlation with the broad market was close to 0. We only bought 3 positions last month of which 2 were short covers.

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Investment Strategy

Despite the significant drop in the broader market one of our top performing stocks was actually a long position. Chiyoda is in the top five gainers category for the third consecutive month.

Finally, the short position in Kikkoman paid off. Patience is a virtue, however once more patience was rewarded and this stock, trading at 35x fiscal year 2016 earnings corrected 16% in September.

The biggest losing position was Alpine. In August, the stock had dropped more than 30% from its peak. At that price level, valuation was appealing enough to buy some as plenty of bad news was already in the price. However, late September, the, in our opinion, obvious negative earnings announcement drove the stock down another -24%. Now the stock trades at 0.8x PB, 3.1x EV/EBITDA and 16x depressed forward earnings.

On a sector level we decreased the net allocation to Industrials, down from 11% last month to 4% at the end of September.

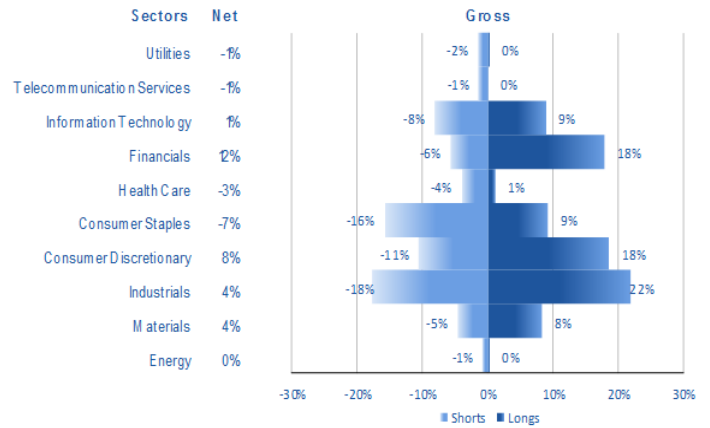
The biggest net short exposure remains in Consumer Staples with -7%. We remain convinced that certain stocks in this sector are excessively valued.

Top Gainers & Losers

Gainers	CTR*	Losers	CTR*		
Kikkoman	S	0.6%	Alpine Elec	L	-0.3%
Chiyoda	L	0.4%	Itochu Corp	L	-0.3%
Komatsu	S	0.3%	Honda Motor	L	-0.3%
Unicharm	S	0.3%	Maruichi Stl Tub	L	-0.2%
Hino Motors	S	0.2%	Shin-Etsu	L	-0.2%

*CTR = Contribution

Source: Factset

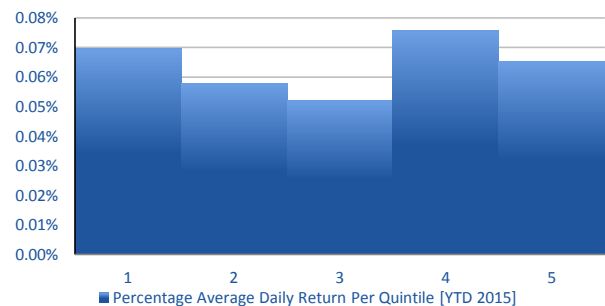


Source: UBS PAS

Value Factor Performance*

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MTD	-2.8%	2.6%	1.1%	2.3%	0.9%	0.4%
YTD	-1.9%	0.7%	-0.1%	3.6%	1.7%	1.6%

Source: Factset*



Source: Factset*

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.

'Value' as a style delivered decent results in September. Dividend yield (Div Yld) with its defensive characteristics performed well, together with enterprise-value-to-EBITDA (EV/EBITDA).

In August our dividend yield exposure suffered quite a bit. The fund is long dividend exposure mainly through the REIT space. We had significant REIT exposure early in the 2015, sold into strength and partly hedged it. In July we took off the hedges (Nippon Building Fund and Japan Real Estate), however the weak performance of REITs continued into August.

In September the REIT index appreciated +2.9%.

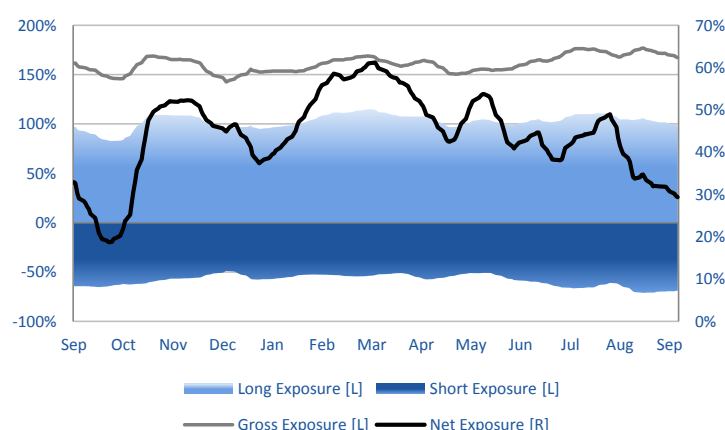
Finally, price-to-book (P/B) our favorite value measure delivered positive results in this risk-off environment. This is very encouraging. If low P/B stocks start outperforming in a risk-on environment as well, we think the probability of a sustainable trend change has significantly increased.

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.

Over the past 12 months the gross exposure ranged between 150-180%, and stood at 177% gross exposure (185% delta -adjusted) at the end of September. The net exposure at the end of September was 32%, which was 8% lower compared to last month. Delta adjusted net exposure was just 16%. In late July we bought put options on the Nikkei which had a delta-adjusted exposure of -16% at the end of September.

The ex-ante volatility declined to 7.1%.



Source: Citi Financial Services*

Fund Overview

	Long	Short
Price to Earnings (PE)	18.0	20.7
EV/EBITDA	8.6	11.8
Price to Book (PB)	1.5	2.1
Dividend Yield	2.1	1.7
EV/IC	1.0	2.1
1 month momentum	-7.5	-13.5
6 month momentum	-1.8	-6.6
9 month momentum	9.5	5.1
Earnings momentum (1M)	15.9	3.5
Earnings momentum (3M)	11.2	-0.5
CFROI	7.1%	8.7%
Cash/MarketValue	31.4%	21.8%

Source: Factset

Style Exposure

	Long	Short
Beta	0.9	1.0
Volatility	20.5%	21.9%
Debt-to-equity	16.00	30.00

Source: UBS PAS

Risk Statistics Delta Adjusted

Volatility (ex-ante; 1yr daily data)	7.1%
Volatility (ex-ante; 5yr monthly data)	4.6%
Var (99%, 5 days)	2.0%
Beta (ex-ante)	0.17

Source: GS and UBS PAS

Outlook

Strategic Framework - Outlook 2nd half of 2015

Economic data is normalizing after last year's VAT hike. Finally underlying trends are meaningful again. The Japanese economy is not in great shape, neither is the global economy. The Japanese economic data remains lackluster though the weak Japanese Yen continues to be a support for this rather dull economy. The most interesting development is the volatility spill-over from currency and commodity markets into fixed income, and as of mid-June, finally into equities. Central banks aimed to suppress risk premia/volatility through monetary activism and 'achieved' the lowest long dated bond yields in centuries. A healthy financial system can cope with volatility. Accepting price swings yields the most efficient capital allocation. It rewards savvy market participants and punishes mis-judgement as well as excessively leveraged risk taking. The manipulation of market segments by central bankers results in underestimating risk and introduces second and third order effects of unintended consequences. Not all prices can be controlled all the time. Ultra low interest rates did not matter for a long time and now that the US Fed wants to 'normalize' interest rates currency markets need to re-price for policy divergence. The single most important economic variable for the second half of 2015 is the US dollar. As long as the US dollar appreciation and sell-off in long-dated bonds is gradual, the repercussion for the US economy remains limited and the Japanese market can continue its ascent. The collapse of commodities and emerging market equities have so far been ignored by developed market investors. But for how long? A lot of 'ifs' indeed, nevertheless a useful roadmap to keep in mind.

Tactical assessment – Outlook October 2015

Our base case, high probability scenario materialized in September and it turned out to be a profitable month for our strategy. On a very short term basis, we monitor a wide range of sentiment indicators and almost all of them indicate extreme levels of bearishness. Thus, on a tactical basis, we are looking for a significant bounce in risk assets. As highlighted many times before, it all hinges on the US dollar. The world's reserve currency appreciation led to significant tightening in global credit and had its repercussions, through commodity prices, on emerging market growth. With a data dependent FED, pushing out the rate hikes into 2016, policy divergence becomes less evident. This means, bad news (for the economy) is again good news (for markets), because the FED needs to postpone again. Earnings season is upon us with its disorderly trading behavior. However, statistically value strategies perform well from October to April and the value dispersion in the Japanese market is still at extremes.

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Historic Fund Performance (Monthly)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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Class A EUR

2015	-1.28%	4.85%	-0.32%	3.21%	2.54%	-1.63%	-3.07%	-3.05%	2.42%			
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 A USD

2015	-1.37%	4.79%	-0.51%	3.48%	2.62%	-1.70%	-3.04%	-3.37%	2.45%			
2014	-3.16%	-0.74%	-0.68%	-1.11%	-2.26%	1.30%	0.21%	-0.63%	1.88%	-1.89%	-1.36%	0.92%
2013							-1.92%	-1.15%	1.29%	-1.04%	1.58%	1.74%

Class A JPY

2015	-1.40%	4.80%	-0.51%	3.11%	2.88%	-1.92%	-3.14%	-3.08%	2.62%			
2014	-3.24%	-0.80%	-0.71%	-1.19%	-2.27%	1.26%	0.19%	-0.65%	1.86%	-1.97%	-1.60%	0.87%
2013							-1.82%	-1.26%	1.23%	-1.06%	1.59%	1.73%

Class B EUR

2015	-1.24%	4.89%	-0.27%	3.25%	2.57%	-1.67%	-2.94%	-3.01%	2.46%			
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)

	2015	2014	2013	2012	2011	2010	2009	2008
Class A EUR	3.38%	-6.99%	18.86%	10.24%	-4.96%	8.66%	0.36%	
Class A USD	3.00%	-7.38%	0.43%					
Class A JPY	3.05%	-8.06%	0.35%					
Class B EUR	3.77%	-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 A USD	NL0010545570
ISIN Class A JPY	NL0010545588
ISIN Class B EUR	NL0001118015
Inception Date Class A EUR	January 2009
Inception Date Class A USD	July 2013
Inception Date Class A JPY	July 2013
Inception Date Class B EUR	July 2008

Fund Facts

Fund Size in EUR	€ 93,231,136
Fund Size in USD	\$104,204,440
Participations Outstanding Class A	436
Participations Outstanding Class B	62,382
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

Pelargos Japan Alpha Fund

September 2015



Company Facts

Firm AUM in EUR	€ 238,920,049
Firm AUM in USD	\$267,040,939

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

Contact Details

WTC The Hague, Tower E 7th floor
Prinses Margrietplantsoen 43
2595 AM, The Hague
The Netherlands
+31 (70) 7568030
www.pelargoscapi.com

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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