



PELARGOS CAPITAL B.V.

Financial Figures 2017

The Hague
27 June 2018

Company information

Statutory directors

Orange Dragon Company B.V.
P.P.J. van de Laar

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Independent auditor

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Company profile

Pelargos Capital B.V. (hereafter: Pelargos) is an investment boutique with an institutional type infrastructure that provides absolute return type products focused on alpha generation in Asian equity markets. Pelargos was founded on March 4th 2008 with Aegon Asset Management as cornerstone investor. In June 2008 and July 2008 two Dutch domiciled funds, the Pelargos Asia Alpha Fund respectively the Pelargos Japan Alpha Fund were launched. In May 2016 the Pelargos Japan Long Short Value Fund was launched; this is a Cayman domiciled Unit Trust fund, with Elian as Trustee. The three funds strive for capital growth by taking long and short exposures in securities related to Asian respectively Japanese companies.

Pelargos, incorporated and domiciled in the Netherlands, is a private limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague under its registered address at Prinses Margrietplantsoen 43, 2595 AM, The Hague. The statutory objectives of the company are:

- to act as a manager of one or more funds for joint account;
- to conduct the management over and to be (managing) director of one or more other investment institutions, companies and legal entities; and
- to invest assets in any other way, whether or not at the risk and expense of third parties; as well as to participate in, to take an interest in any other way in, to conduct the management of other business enterprises of whatever nature, furthermore to finance third parties, in any way to provide security or undertake the obligations of third parties and finally all activities which are incidental to or which may be conducive to any of the foregoing.

Pelargos has been granted the license to manage investment funds (as meant in *Article 2:65, first paragraph, sub a, Wet Financieel Toezicht*) by Autoriteit Financiële Markten on 9 December 2010. As of 22 July 2014, this license has been converted into an AIFMD license. Pelargos has been granted an extension to its license, which enables it to offer additional investment services (as meant in *Article 2:67, 2nd paragraph, sub a, sub b and sub d Wet Financieel Toezicht*) by Autoriteit Financiële Markten as of 1 March 2017.

Summary of 2017

Introduction

All the funds managed by Pelargos generated positive absolute returns: the Pelargos Japan Alpha Fund gained 3.2%, the Pelargos Asia Alpha Fund rose 4.3% and the Pelargos Japan Long Short Value Fund returned 3.5%. Despite that, 2017 turned out to be another tough year for fundamental value strategies. Strong flows into passive funds drove the outperformance of growth-style investments. As a result of new customer acquisitions, our assets under management increased from € 230 million to € 240 million.

Business development

Pelargos was established in 2008 with the strategic backing and long-term committed cornerstone investor Aegon. Since its start Pelargos has built an institutional infrastructure. It supports our fundamental research and risk management framework. It also enables effective reporting and performance attribution analysis to provide transparency for our clients. Pelargos is an Alternative Investment Management Association member and our key service providers are best in class partners. The main driver of profitability comes from increasing revenues through acquisition of new customers. To accelerate this process, we launched a project to search for strategic partners with proven distribution capabilities with whom we can develop products to leverage our alpha generating capacities.

In July, we introduced a share class for the Pelargos Japan Alpha Fund, with a highly competitive fee structure of 0.5% management fee and 15% performance fee. We have received a significant investment from a German institutional investor into this new share class. This is the main reason for the Japan Fund's asset growth to €98.8mln. Further growth in assets under management is expected for 2018.

Organisation

In 2016, Pelargos applied at Autoriteit Financiële Markten (AFM) for an extension to its AIFMD license in order to be able to manage individual

client portfolios. This license has been granted by AFM as of 1 March 2017. We have been implementing and/or amended several procedures and policies as a result of Market Abuse Directive and Market Abuse Regulation (MAD MAR) and Markets In Financial Instruments Directive II (MIFID II).

The company had on average 13.9 full time employees employed (2016: 10.2). Changes in Dutch pension legislation (lengthening working years until 67 years) resulted in an amendment to the pension contract with provider Aegon and an amendment of the personnel pension conditions.

We have upgraded parts of our IT platform and started a data normalization project. This enables more efficient processing of data for front and back office purposes.

Financials

In 2017 Pelargos realized a loss of € 521,439. This was a disappointing financial result. Over the past few years we have made significant investments in our product and business development capabilities by adding an offshore domiciled fund, additional shareclasses and adding human resources to accelerate customer acquisition. Unfortunately, some of these investments have not paid off. Therefore we will scale back and reverse some of these investments to restore profitability. Therefore Pelargos management targets financial break even, under normal market conditions, in the second half of 2018.

The current assets of Pelargos are sufficient to meet its current short term, current long term and foreseeable near future financial obligations.

The Hague, 27 June 2018

Orange Dragon Company B.V., R.A. Dingemans

P.P.J. van de Laar

M. Kretschmer



Balance sheet as at 31 December 2017

(Before profit distribution)

ASSETS	31 December 2017	31 December 2016
	€	€
Fixed assets		
<i>Material fixed</i>		
Property and equipment	9,320	14,703
Hardware	11,684	1,920
	21,004	16,623
Current		
<i>Receivables</i>		
Accounts receivable	347,751	216,336
Units of participations in Funds	434,750	431,186
Corporate Income Tax	29,482	69,482
Current account related parties	156,327	123,402
Other current assets	30,302	0
	998,612	840,406
<i>Cash and cash equivalents</i>		
Bank	2,311,857	2,915,210
	2,311,857	2,915,210
Total assets	3,331,473	3,772,239

LIABILITIES	31 December 2017	31 December 2016
	€	€
Equity		
Share capital	18,000	18,000
Ordinary share premiums	482,000	482,000
Other reserve	2,730,995	3,112,148
Net Result	-521,439	-381,153
	2,709,556	3,230,995
Long term liability	115,659	115,967
	115,659	115,967
Current		
Accounts payable	142,724	64,249
Wage tax	3,767	36,214
Other current liabilities	359,767	324,814
	506,258	425,277
Total liabilities	3,331,473	3,772,239

Profit and loss account 1 January - 31 December 2017

P&L	2017	2016
	€	€
Revenues		
Performance fee	63,569	2,410
Management fee	2,264,859	2,260,921
Revenues from fees	2,328,428	2,263,331
Total costs	2,852,412	2,682,178
Investment results	3,564	288
Other income	676	38,978
Interest	-1,695	-1,572
Result before tax	-521,439	-381,153
Corporate income tax	-	-
Result after tax	-521,439	-381,153

Cash flow statement 1 January - 31 December 2017

(Indirect method)

CASHFLOW STATEMENT	2017	2016
	€	€
Earnings from operations	-523,984	-418,847
Adjustments for		
Depreciation	7,100	9,293
Change in receivables	-158,206	99,363
Change in liabilities	80,673	14,248
Due corporate tax	-	-
	-70,433	122,904
Cash flow from operations	-594,417	-295,943
Investment results	3,564	288
Investments in fixed assets	-11,482	-7,775
Cash flow from investments	-7,918	-7,487
Interest	-1,695	-1,572
Dividends paid	-	-
Cash flow from financing	-1,695	-1,572
Other income	676	38,978
Cash flow from other	676	38,978
Change in cash	-603,354	-266,024

Notes

General

The financial statements are drawn up in accordance with the provisions of Title 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Dutch Accounting Standards, as published by the Dutch Accounting Standards Board ('Raad voor de Jaarverslaggeving') and the Dutch Financial Supervision Act. The valuation principles and method of determining the result are the same as those used in the previous year.

Accounting policies

- Fixed assets are valued at historical cost including directly attributable costs, less straight-line depreciation based on the expected future life and impairments.
- Receivables are recognised initially at fair value and subsequently measured at amortised cost.
- Pelargos is investor in the Pelargos Japan Alpha Fund and the Pelargos Asia Alpha Fund. The units of participation held are valued against fair value, i.e. the Net Asset Value per participation of the funds as of 31 December 2017. Profits respectively losses due to increases respectively decreases of the value of the Units of Participation are recognized directly in the Profit and Loss account.
- Cash and cash equivalents represent bank balances and deposits with terms of less than twelve months.
- On initial recognition current liabilities are recognised at fair value. On initial recognition long-term liabilities are recognised at fair value.
- Performance fees are accrued when the net asset value of each (sub)class of the Fund exceeds the prevailing high watermark (the highest net asset value on previous financial year ends of the Fund). As per the last Valuation Day of the financial year the actual amount due over that year is calculated for each (sub)class of Participations and any amount due is made payable by the Fund to the Investment Manager.
- Management fees are the monthly fees due from the managed funds.
- Costs are determined on a historical basis and are attributed to the reporting year to which they relate.
- Material fixed assets are depreciated over their estimated useful lives as from the inception of their use.
- Pelargos has entered into an agreement with Aegon Levensverzekering N.V., under which the latter grants the post retirement benefits to employees of Pelargos. Pelargos disburses premium to Aegon Levensverzekering N.V. There are no other obligations in addition to the premiums paid.

Notes to the balance sheet

- Accounts receivable at 31-12-2017 refer to management fee of December 2017 and performance fee of 2017 due by the funds managed.
- The financial instruments held by Pelargos are not traded in an active market. The net asset values of the participations is calculated by the Fund Administrator. The value calculation is based on the observable market prices of the underlying assets.
- Cash is not subject to any restrictions.
- The managing board proposed to distribute nil dividend. The net loss of 2017 will be added to the other reserves.
- The long term liability is longer than one year but shorter than 5 years, and refers to deferred variable remuneration.

Notes on the profit and loss account items

- As seeding, large and long term committed investors, affiliated entities related to Aegon Group N.V. who are participants in the Pelargos Japan Alpha Fund and the Pelargos Asia Alpha Fund, receive a full discount.
- The management fee is payable monthly in arrears and due as per the first day of the subsequent month. As seeding, large and long term committed investors, affiliated entities related to Aegon Group N.V. who are participants in the Pelargos Japan Alpha Fund and the Pelargos Asia Alpha Fund received a discount.
- Pelargos has defined a remuneration policy. This includes among other things provisions on the deferral of at least 40% allocated bonus amounts. The directors discuss the proposed budgeted amount for variable pay with the shareholders. The directors decide on the assessment of performances of members of personnel and the amount of variable pay allocated to each member of personnel. The amount of variable pay for each employee is dependent on several weighted criteria, a.o. the performance of the relevant fund, the contribution to the (improvement) of the investment process, the contribution to (the improvement of) other company processes.
- There were no subsequent events in the period post 31 December 2017.