# PELARGOS JAPAN ALPHA FUND

# AUDITED FINANCIAL STATEMENTS

# FOR THE YEAR ENDED

# 31 DECEMBER 2017

**AUDITED FINANCIAL STATEMENTS**
**For the year ended 31 December 2017** **Page**

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## FUND INFORMATION

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|---|---|
| REGISTERED OFFICE | WTC, E-Tower, 7th Floor<br>Prinses Margrietplantsoen 43<br>2595 AM The Hague<br>The Netherlands<br>www.pelargoscapital.com |
| MANAGER | Pelargos Capital B.V.<br>WTC, E-Tower, 7th Floor<br>Prinses Margrietplantsoen 43<br>2595 AM The Hague<br>The Netherlands |
| DEPOSITARY | The Bank of New York Mellon SA/NV<br>WTC Building, Podium Office, B-Tower<br>Strawinskylaan 337<br>1077 XX Amsterdam<br>The Netherlands |
| LEGAL OWNER | Stichting Pelargos Japan Alpha Fund<br>c/o: SGG Custody B.V.<br>Amerika Building<br>Hoogoorddreef 15<br>1101 BA Amsterdam<br>The Netherlands |
| ADMINISTRATOR | The Bank of New York Mellon SA/NV<br>WTC Building, Podium Office, B-Tower<br>Strawinskylaan 337<br>1077 XX Amsterdam<br>The Netherlands |
| PRIME BROKERS | UBS AG<br>1 Finsbury Avenue<br>London EC2M 2PP<br>United Kingdom |
| | Goldman Sachs International<br>Peterborough Court<br>133 Fleet Street<br>London EC4A 2BB<br>United Kingdom |
| | Nomura International plc<br>1 Angel Lane<br>London EC4R 3AB<br>United Kingdom |
| LEGAL ADVISOR | De Brauw Blackstone Westbroek N.V.<br>Claude Debussylaan 80<br>1082 MD Amsterdam<br>The Netherlands |

**FUND INFORMATION (continued)**

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|---|---|
| INDEPENDENT AUDITOR | PricewaterhouseCoopers Accountants N.V.<br>Fascinatio Boulevard 350<br>3065 WB Rotterdam<br>The Netherlands |
| FINANCIAL REPORTING<br>TO DNB | Solutional Financial Reporting B.V.<br>Arentsburghlaan 3<br>2275 TT Voorburg<br>The Netherlands |

## FUND PROFILE

### Pelargos Japan Alpha Fund
The Pelargos Japan Alpha Fund (the "Fund") is an open-ended investment fund. Issue and redemption of units of participation is possible as per instruction of the Participant as described in the Prospectus. Date of commencement of the Net Asset Value ("NAV") calculation was 10 July 2008.

### Key Features Document ("Essentiële Beleggersinformatie") and Prospectus
The Fund's Key Features Document applies containing Fund information related to its costs and risks. The Key Features Document and Prospectus are available on www.pelargoscapital.com.

### Investment objective
The Fund's objective is to achieve capital appreciation through investing in long and short positions in equities related to Japanese enterprises. The Fund seeks to limit the downward risk and aims for returns that have a low correlation with the returns of the market index. To achieve the Fund's objective, the Manager may use leverage. Potentially increasing the return of the Fund through derivative positions and securities borrowing as well as increasing the exposure of the Fund by borrowing cash are regarded as leveraging techniques.

### Dividend
In principle the Fund does not pay dividends. The Manager is, however, authorised to pay part of the profit available for distribution to the Participants.

### Manager
Pelargos Capital B.V. (the "Manager") is the Manager of the Fund and as such is responsible for determining and implementing the investment policy. Pelargos Capital B.V. is registered at the Netherlands Authority of the Financial Markets (AFM). The Pelargos Japan Alpha Fund does not employ any personnel, as all services are provided by the Manager.

The Manager was incorporated on 4 March, 2008 and has its registered office in The Hague. The directors of the Manager are Orange Dragon Company B.V. (represented by R.A. (Richard) Dingemans) and P.P.J. (Patrick) van de Laar.

### Depositary
The Manager has appointed The Bank of New York Mellon SA/NV in Amsterdam, trading as The Bank of New York Mellon SA/NV, Amsterdam Branch, as Depositary of the Fund.

Stichting Pelargos Japan Alpha Fund ("Stichting") is the legal owner of the assets of the Fund. The Manager of the "Stichting" is SGG Custody B.V.

### Administrator
The Bank of New York Mellon SA/NV, Amsterdam Branch, is the administrator of the Fund, and is listed in the trade register held by the Amsterdam Chamber of Commerce under number 34363596. Certain administration services are being outsourced to BNY Mellon Fund Services (Ireland) Designated Activity Company (DAC) in Dublin, Ireland. The Administrator was incorporated under Irish law on 31 May 1994 and is registered under number 218007 with the Companies Registration Office in Ireland. Furthermore, certain services in relation to transfer agency are being outsourced to The Bank of New York Mellon Luxembourg SA/NV which is registered with the Luxembourg Trade and Companies Register under number B 105.087.

### Prime Brokers
The Prime Brokers (the "Prime Brokers") of the Fund are Goldman Sachs International, UBS AG and Nomura International plc.

## SUMMARY OF FINANCIAL INFORMATION

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| | € '000 | € '000 | € '000 | € '000 | € '000 |
| Class A (€) | 22 | 18 | 29 | (12) | 71 |
| Class B (€) | 5,932 | 5,223 | 8,944 | (4,241) | 26,109 |
| Class C ($) | 180 | - | - | - | - |
| Class A (¥) | - | - | 12 | (2) | 15 |
| Class A ($) | - | - | 13 | (3) | 16 |
| **Income/(loss)** | **6,134** | **5,241** | **8,998** | **(4,258)** | **26,211** |
| | | | | | |
| Class A (€) | (13) | (12) | (12) | (9) | (17) |
| Class B (€) | (3,175) | (3,274) | (3,185) | (3,407) | (6,140) |
| Class C ($) | (158) | - | - | - | - |
| Class A (¥) | - | - | (2) | (2) | (4) |
| Class A ($) | - | - | (3) | (2) | (4) |
| **Expenses and withholding taxes** | **(3,346)** | **(3,286)** | **(3,202)** | **(3,421)** | **(6,165)** |
| | | | | | |
| Class A (€) | 9 | 6 | 17 | (21) | 54 |
| Class B (€) | 2,757 | 1,949 | 5,759 | (7,649) | 19,969 |
| Class C ($) | 22 | - | - | - | - |
| Class A (¥) | - | - | 10 | (4) | 11 |
| Class A ($) | - | - | 10 | (5) | 12 |
| **Increase/(decrease)** | **2,788** | **1,955** | **5,796** | **(7,679)** | **20,046** |
| | | | | | |
| Net assets (€ '000) | **98,759** | **93,585** | **90,623** | **110,123** | **117,795** |
| | | | | | |
| Number of units of participation | | | | | |
| Class A (€) | 236.27 | 236.27 | 236.27 | 236.27 | 236.27 |
| Class B (€) | 56,177.52 | 59,944.95 | 59,246.86 | 76,538.46 | 76,533.77 |
| Class C ($) | 9,415.81 | - | - | - | - |
| Class A (¥) | - | - | - | 100.00 | 100.00 |
| Class A ($) | - | - | - | 100.00 | 100.00 |
| | | | | | |
| Net asset value per unit of participation | | | | | |
| Class A (€) | 1,395.81 | 1,360.27 | 1,336.48 | 1,263.10 | 1,358.08 |
| Class B (€) | 1,605.87 | 1,555.82 | 1,524.25 | 1,433.06 | 1,533.07 |
| Class C ($) | 1,047.80 | - | - | - | - |
| Class A (¥) | - | - | - | 92,258.68 | 100,346.19 |
| Class A ($) | - | - | - | 930.26 | 1,004.33 |
| | | | | | |
| Performance | | | | | |
| Class A (€) (in %) | 2.61 | 1.78 | 5.81 | (6.99) | 18.86 |
| Class B (€) (in %) | 3.22 | 2.07 | 6.36 | (6.52) | 20.57 |
| Class C ($) | 4.80 | - | - | - | - |
| Class A (¥) (in %) | - | - | 4.92 | (8.06) | 0.35 |
| Class A ($) (in %) | - | - | 4.91 | (7.38) | 0.43 |

**MANAGER'S REPORT**
**For the year ended 31 December 2017**

## Performance

| 2017 | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Class A EUR | 0.49% | -0.93% | -1.67% | -0.61% | 0.19% | 1.28% | 1.17% | 0.42% | 0.90% | 1.14% | 0.15% | 0.10% | 2.61% |
| Class B EUR | 0.56% | -0.92% | -1.63% | -0.57% | 0.23% | 1.32% | 1.18% | 0.46% | 0.99% | 1.25% | 0.20% | 0.14% | 3.22% |
| Class C USD | | | | | | | 1.17% | 0.64% | 1.13% | 1.21% | 0.16% | 0.38% | 4.78% |

*Source*: BNY Mellon Fund Services.

## Market review

In 2017 the Pelargos Japan Alpha Fund returned +2.61% for the class A EUR and +3.22% for the class B EUR shares. This brought the inception-to-date performance of class B shares to 60.59%, which translates into annualized net returns of 5.1%.
The MSCI Japan returned +17.6% in 2017 and is up 31% since the inception of the Fund.

In July, class C shares (USD) have been introduced 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 C share class. This is the main reason for the growth in the Fund's net assets to €98.8mln. Further growth in assets under management is expected for 2018.

## Market review

The Japanese market bottomed together with global bond yields in June 2016. With that, the greatest rotation from defensives into cyclicals for the past decade began as President-elect Trump promised a set of strong fiscal spending measures designed to kick start the American economy. In our opinion, the June to December 2016 rally was the initial up-leg in the continuation of the structural bull market in Japanese equities, which has started in 2012. Volatility has collapsed across the globe in 2017. Japanese equities traded in a very narrow range from December 2016 until the end of March as global growth was moderate and inflation expectations came down. Moderating inflation expectations were the result of President Trump's inability to pass significant fiscal reform legislation as well as year-over-year changes in commodity prices turning negative.

In April, Japanese equities sold off as global geopolitical nervousness grew around the French presidential elections and North Korean missile tests. However the draw-down was much less than the usual 20% drop in Japanese equities, and the market quickly rebounded once pro-Europe candidate Macron was elected. From June onwards, global macroeconomic news started to improve and exceeded investors' expectations. Additionally, waning geopolitical risks and a moderate pick up in global commodity prices further enhanced equity sentiment. The goldilocks macroeconomic environment in combination with low global bond yields drove a rotation into equities, which boosted equity market returns globally.

This low volatility market environment in Japan is rather atypical for what historically has been quite a volatile market. Within that framework, value strategies underperformed significantly during 2017 and expensive, low volatility strategies performed well. Semiconductors, Household Products and Software and Services all performed strongly with double digit gains and sectors such as Real Estate, Banks and Utilities lagged the market with lackluster returns. Noteworthy is the rebound in Energy and Mining stocks, which ended the year strongly as commodity prices rebounded from June 2017.

**MANAGER'S REPORT (continued)**
**For the year ended 31 December 2017**

## Investment policy

The second half of 2016 saw a sharp revival of cyclical value at the expense of expensive defensives and we were well positioned to benefit from that. In a disciplined manner we took profits during the October to January period as the cyclical value outperformance peaked in mid-December 2016. Therefore we started the year with a slightly cautious positioning. The net exposure had dropped to +19% and gross exposure to 104% by mid-February, which is at the low-end of the historical range. By late February we re-introduced a higher risk allocation and expanded both the long book as well as the short book. We have added to stock specific situations in deeply undervalued domestic cyclicals such as Nishimatsu construction, Maeda Road Construction and travel agent H.I.S. This was further supported by our favourable view of the Japanese domestic economy, where consumption benefits from low unemployment, rising real wages and a recovery of in-bound tourism. However, as our approach was not rewarded, we quickly withdrew and lowered gross and net exposure again. At the end of April, gross exposure stood at 107% and net exposure at 24%. From June onwards, our indicators supported a higher risk budget, which was further confirmed by a technical break out of the Nikkei 225 index that broke above 21,000-level for the first time since 1996. Japanese equities moved sharply higher in the fourth quarter, as the Japanese yen started weakening from early summer strength. With the yen finally becoming a tail-wind, we increased existing long positions and added global cyclicals such as Sumco, Hitachi High Tech and Fanuc, whilst further trimming our short book. By the end of October the gross exposure stood at 150% with net exposure at 47%. However, despite the increased risk budget and exposures, the ex-ante volatility remained very low at 6.2% and ex ante beta was only 0.30 despite 47% net exposure. This was the result of a collapse in the spot volatility globally, which was caused by volatility selling strategies that suppressed global volatility. We maintained our risk exposures into year-end with a strong tilt towards domestic cyclicals and closed the year with a net exposure of 44% and a gross exposure of 134%.

The five largest positive contributors on a single stock level were all long positions and were either driven by very strong earnings/price momentum or deep value situations that started to re-rate. In decreasing order they were: Pola Orbis (earnings momentum), Toshiba Machine (deep value), Toshiba Plant Systems (deep value), Sumco (earnings momentum) and Technopro (earnings momentum). The five largest negative contributors were a mix of long and short positions. These long positions were deep value situations where we were expecting some mean reversion/rebound. The short positons were included in our systematic hedge basket and could be characterized as expensive with high momentum. In increasing order the biggest losses came from: Takara Leben (long), Yaskawa Electric (short), Sumitomo Mitsui Banking Corp. (long), Mitsui Fudosan (long) and Recruit Holdings (short).

## Outlook

The global economy continues to show a solid performance. After a decade of underinvestment we are witnessing a capital expenditure boom, especially in technology, which is supported by "close-to-nothing" cost-of-capital. On the other hand, labour markets in the US and Japan are already tight, but wage inflation has not really shown up yet. As the global financial system is still awash in liquidity, risk assets continue to sky-rocket despite obvious valuation concerns. Equities in the US are very expensive and the rest of world looks more attractively valued. The Japanese market is trading above mid-cycle valuations, but has not reached peak valuations yet.

Central banks globally were explicitly or implicitly targeting animal spirits and clearly succeeded as US equities moved into blow-off phase. We are at the point of the cycle that the US FED wishes to put the genie back in the bottle and normalize interest rates, without crushing asset prices. This will be a tightrope act. Investors happily ignore the multi-decade high in political as well as geopolitical risk. The FED can remove the punch bowl, but nobody knows at what level of interest rates the tipping point will be.

**MANAGER'S REPORT (continued)**
**For the year ended 31 December 2017**

## Outlook (continued)

For the time being, strong growth and higher interest rates are extremely positive for Japanese equities. In the multi-year transition phase from deflation to inflation it seems we are at the inflection point now and Japanese risk assets started to discount such a positive scenario. Needless to say, if inflation expectations nudge up even further the Japanese market will be a stellar performer for quarters to come. Having met BOJ officials recently, we doubt the central bankers in Japan will try to slow down the asset acceleration phase. This is more or less a sweet spot for Japanese equities and despite that Japan is still amongst the worst performing developed equity markets globally.

With regards to the outlook for 2018 it is worth repeating that our long book has tremendous upside. We can still find plenty of long ideas, which are outrageously inexpensive especially compared to the excessive valuations 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 as autonomous driving and advanced driver assistance systems (ADAS) are being rolled out. The bottom-up research coverage in Japan remains anemic and therefore little attention is paid to the great earnings potential those companies have. Valuations are still cheap, earnings revisions are trending upwardly and buyback programs are accretive for shareholders, which is supportive from a flow perspective. This market environment creates ample opportunities for stock picking.

## Risk management

We have devised a prudent risk management framework that is appropriate to the nature, scope and complexity of the activities deployed. Where relevant and possible the proportionality principle is applied when implementing applicable laws and regulations with regards to hierarchical and functional separation between risk management and other functions within Pelargos Capital B.V., establishing and managing risk limits as well as regards risk measurement and risk management.

In Compliance, Directors and Portfolio Management meetings, risks are reviewed, identified and previously identified risks are monitored.

Risk management is considered an integral part of the investment and the operational process. Risk management supports decision making in order to minimise unexpected losses and achieve the absolute return objective. Financial risk management encompasses all elements of our investment process from idea generation, implementation of trades, performance measurement, reporting and attribution analysis. A number of risk management systems allow us to notice any deviations to intended positioning and targets. The portfolio managers are continuously monitoring financial risks. In addition, the investment guidelines as described in the prospectus are monitored by the risk manager.

Operational risk management recognises the four areas of potential losses; processes, systems, people and external events. With these sources of risk in mind, processes and controls are developed, documented and monitored by the risk manager.

Exposures to markets, currencies or countries are described in Note 11 of the financial statement. The most important risks are described below; a more extensive list of risks is described in the Prospectus.

**MANAGER'S REPORT (continued)**
**For the year ended 31 December 2017**

**Risks**

*Volatility of securities held*
Many factors can affect the market value of the securities invested by the Fund. Not only can factors inherent to the pertinent issuing company or the sector in which it operates influence that value; geopolitical, national developments and macro economic factors may have an effect.

The performance of the Fund largely depends on the decisions that the Manager takes as part of the investment process, leading from identification to the implementation of investment opportunities. Investments may be geared towards an expected upswing or downswing in the value of a security; if the security moves adversely, the value of the Fund may be negatively affected.

Market risk is mitigated by the allocation of appropriate capital resources, which are determined on the basis of stress testing, sensitivity testing and modelling. Concentration risk is mitigated by diversification and an adequate number of holdings in the portfolio. The liquidity policy is aimed at maintaining assets in such proportion that it will at all times enable the manager to meet its liabilities as they arise.

*Short selling*
The Fund may sell equities with the purpose of buying them back later. These are borrowed, as the Fund does not hold those equities. The cost for borrowing varies and influences the return realized on the pertinent position. Conceivably, borrowed equities may need to be returned to the lender at an earlier than expected date. The value of the borrowed amount is limited to a maximum of 175% of the Net Asset Value of all (Sub)Classes of Participations.

*Loans*
Loans provided by the prime brokers enable the fund to enhance its gross exposure. This increases the Fund's risk profile in terms of price volatility and interest rate volatility. Theoretically, holdings purchased with borrowed funds could drop to a value that is less than the amount borrowed. The value of the loan amount is limited to a maximum of 250% of the Net Asset Value of all (Sub)Classes of Participations.

*Counterparty risk*
The Fund is susceptible to the risk of counterparties of the Fund defaulting on their obligations as a result of inter alia a moratorium of payment or involuntarily liquidation.
Such counterparties include the Prime Brokers. A Prime Broker is entitled to pledge assets of the Fund to third parties to secure financing to the Fund (rehypothecation). In case of involuntary liquidation of the Prime Broker, the Fund ranks as a general creditor in respect to the value of the rehypothecated assets, with the risk that this value may not be reclaimed. The amount of rehypothecation of long assets is limited to 140% of the net indebtness of the Fund.
The risk manager is monitoring periodically this limit independently from the portfolio managers.

*Derivatives*
The Fund may utilise investment instruments such as exchange-traded futures, OTC options and other derivative contracts. Depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or loss that is high in proportion to the amounts of the funds actually placed as initial margin or premium paid. Because OTC transactions are not executed via an exchange, pricing may be less transparent. Additionally, OTC transactions may involve counterparty risk with respect to the unrealised profit value within the contract. Liabilities or receivables following from the OTC CFD contracts are taken into account in the overall margin requirement calculation which takes the total exposure into account. Thus, when positive unrealised results under the CFD contract leads to a receivable, no specific collateral for that purpose is to be received but it will increase the equity part in the margin calculation.

**MANAGER'S REPORT (continued)**
**For the year ended 31 December 2017**

## Other information

Risk control

We have assessed several aspects of operational management throughout the past financial year. We have noticed nothing in our assessments that would lead us to conclude that the description of the structural aspects of operational management within the meaning of article 121 of the Bgfo failed to meet the requirements as specified in the Wft and related regulations. Based on these findings we, as Manager of the Fund, declare that Pelargos has established a governance framework that meets the requirements of the Dutch Financial Supervision Act [Wet op het financieel toezicht, 'Wft'] and the Dutch Market Conduct Supervision of Financial Enterprises Decree [Besluit gedragstoezicht financiële ondernemingen, 'Bgfo']. We therefore declare with reasonable assurance that operational management has been effective and has functioned as described throughout the reporting year. The framework includes the separation of managerial, execution and oversight functions, and relates to the firms' strategy, conduct of business standards, investment portfolio risks, financial risks and operational risks. Risk management is considered an integral part of the investment and the operational process. Systems and procedures are in place for risk inventory and evaluation, to define risk mitigating measures and to monitor the working of those measures.

Personnel
The Fund does not employ any personnel and will not employ any personnel for the foreseeable future.

Investment
The Fund aims to achieve capital appreciation through investing in long and short positions in equities related to Japanese enterprises. The Fund seeks to limit the downward risk while keeping correlation with the returns of relevant market indices low. (Please note that the value of the investments may fluctuate. Past performance is not necessarily a guide to future performance. The value of the product is (among others) subordinated to the developments on financial markets and, if applicable, other markets.)

Remuneration
Pelargos Capital B.V. 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 among which risk management, the contribution to marketing and sales, as well as the quality of activities in the execution of existing company processes.

Senior management relates to the two statutory directors and one other key risk taker. Other personnel include portfolio managers and all other (non- investment) staff. All employees are eligible to receive variable pay, and for all employees deferral of at least 40% of variable applies. On average the company had 11.2 FTE employed in 2017 (2016: 10.2). Though the portfolio managers and analysts have specific areas to focus at, Pelargos Capital B.V. works as one team with two consistent policies for the two funds managed. Therefore, the presentation of the allocation of FTE, Positions and remuneration to the funds is based on a pro rata division of the assets under management in 2017.

There are no personnel at Pelargos Capital B.V. with a total remuneration of EUR 1 million or more in 2017 and in 2016.

**MANAGER'S REPORT (continued)**
**For the year ended 31 December 2017**

## Other information (continued)

Remuneration (continued)

| 2017 | Positions | FTE | Variable remuneration € | Salary € |
|---|---|---|---|---|
| Pelargos Japan Alpha Fund | 1.2 | 1.0 | € 71,595 | € 169,752 |
| Pelargos Asia Alpha Fund | 1.5 | 1.3 | € 89,879 | € 213,101 |
| Pelargos Japan Long Short Value Fund (non AIF) | 0.2 | 0.2 | € 12,180 | € 28,879 |
| Senior management | 3.0 | 2.5 | € 173,654 | € 411,732 |
| | | | | |
| Pelargos Japan Alpha Fund | 5.7 | 3.6 | € 54,162 | € 294,206 |
| Pelargos Asia Alpha Fund | 7.2 | 4.5 | € 67,993 | € 369,337 |
| Pelargos Japan Long Short Value Fund (non AIF) | 1.1 | 0.7 | € 9,214 | € 50,052 |
| Other personnel | 14.0 | 8.7 | € 131,369 | € 713,594 |
| | | | | |
| Pelargos Japan Alpha Fund | 7.0 | 4.6 | € 125,757 | € 463,957 |
| Pelargos Asia Alpha Fund | 8.7 | 5.8 | € 157,872 | € 582,438 |
| Pelargos Japan Long Short Value Fund (non AIF) | 1.3 | 0.9 | € 21,394 | € 78,930 |
| Total all personnel | 17.0 | 11.2 | € 305,023 | € 1,125,326 |

| 2016 | Positions | FTE | Variable remuneration € | Salary € |
|---|---|---|---|---|
| Pelargos Japan Alpha Fund | 1.2 | 1.0 | € 67,414 | € 167,408 |
| Pelargos Asia Alpha Fund | 1.6 | 1.4 | € 90,590 | € 224,961 |
| Pelargos Japan Long Short Value Fund (non AIF) | 0.1 | 0.1 | € 7,797 | € 19,363 |
| Senior management | 3.0 | 2.5 | € 165,801 | € 411,732 |
| | | | | |
| Pelargos Japan Alpha Fund | 4.5 | 3.1 | € 52,694 | € 243,279 |
| Pelargos Asia Alpha Fund | 6.0 | 4.2 | € 70,810 | € 326,917 |
| Pelargos Japan Long Short Value Fund (non AIF) | 0.5 | 0.4 | € 6,095 | € 28,138 |
| Other personnel | 11.0 | 7.7 | € 129,598 | € 598,334 |
| | | | | |
| Pelargos Japan Alpha Fund | 5.7 | 4.1 | € 120,108 | € 410,688 |
| Pelargos Asia Alpha Fund | 7.6 | 5.6 | € 161,400 | € 551,878 |
| Pelargos Japan Long Short Value Fund (non AIF) | 0.7 | 0.5 | € 13,892 | € 47,500 |
| Total all personnel | 14.0 | 10.2 | € 295,399 | € 1,010,066 |

The Hague, 26 April 2018

R.A Dingemans,
on behalf of Orange Dragon Company B.V.
Director Pelargos Capital B.V.

P.P.J. van de Laar,
Director Pelargos Capital B.V.

**STATEMENT OF FINANCIAL POSITION**
**As at 31 December 2017**

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | € | € |
| **Current assets** | | | |
| Financial assets at fair value through profit or loss | 3,11 | 87,812,269 | 65,510,477 |
| Amounts due from brokers | 6 | 2,372,865 | 2,539,423 |
| Dividends receivable | | 258,666 | 170,399 |
| Margin accounts | 5 | 32,326,878 | 24,494,300 |
| Cash and cash equivalents | 4 | 21,739,446 | 42,186,173 |
| **Total current assets** | | **144,510,124** | **134,900,772** |
| | | | |
| **Current liabilities** | | | |
| Financial liabilities at fair value through profit or loss | 3,11 | 44,781,772 | 40,278,204 |
| Amounts due to brokers | 6 | 90,722 | 446,303 |
| Dividends payable | | 154,916 | 123,473 |
| Subscriptions received in advance | 2,18 | - | 20,000 |
| Management fee payable | 7 | 81,042 | 79,674 |
| Performance fee payable | 7 | 553,772 | 241,109 |
| Interest payable | | 3,870 | 2,470 |
| Equalisation credit payable | | 10,554 | - |
| Accrued expenses | 8 | 74,046 | 124,752 |
| **Total current liabilities (excluding net assets attributable to holders of redeemable units of participation)** | | **45,750,694** | **41,315,985** |
| | | | |
| **Net assets attributable to holders of redeemable units of participation** | | **98,759,430** | **93,584,787** |

| **Class A - Euro** | **31 December 2017** | **31 December 2016** | **31 December 2015** |
|---|---|---|---|
| Number of units of participation (Note 13) | 236.27 | 236.27 | 236.27 |
| Net asset value per unit of participation | € 1,395.81 | € 1,360.27 | € 1,336.48 |
| | | | |
| **Class B - Euro** | | | |
| Number of units of participation (Note 13) | 56,177.52 | 59,944.95 | 59,246.86 |
| Net asset value per unit of participation | € 1,605.87 | € 1,555.82 | € 1,524.25 |
| | | | |
| **Class C – US Dollar** | | | |
| Number of units of participation (Note 13) | 9,415.81 | - | - |
| Net asset value per unit of participation | $1,047.80 | - | - |
| Net asset value per unit of participation (Euro Equivalent) | € 872.59 | | |
| | | | |
| **Total Net Asset Value** | **€ 98,759,430** | **€ 93,584,787** | **€ 90,622,724** |

The accompanying notes form an integral part of these financial statements.

PricewaterhouseCoopers Accountants N.V.
For identification purposes only

## STATEMENT OF COMPREHENSIVE INCOME
**For the year ended 31 December 2017**

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | € | € |
| **Investment income** | | | |
| Gross dividend income | 10 | 1,649,094 | 1,928,196 |
| Net gain on financial assets and liabilities at fair value through profit or loss | 3 | 2,645,293 | 5,361,458 |
| Net gain/(loss) on cash and cash equivalents | 3 | 1,839,171 | (2,055,107) |
| Other income | | - | 6,307 |
| **Total income** | | **6,133,558** | **5,240,854** |
| | | | |
| **Operating expenses** | | | |
| Dividend expense on securities sold short | 10 | (702,458) | (753,901) |
| Performance fees | 7 | (553,772) | (247,524) |
| Management fee | 7 | (913,022) | (914,172) |
| Interest expense and borrowing fee | 9 | (729,048) | (913,224) |
| Audit fee | 7 | (34,287) | (30,500) |
| Administration fee | 7 | (93,413) | (94,650) |
| Depositary fee | 7 | (33,555) | (32,990) |
| Legal fee | 7 | - | (5,000) |
| Costs of supervision | 7 | (12,000) | (16,000) |
| Trustee fee | 7 | (13,537) | (11,150) |
| Equalisation fee | | (10,554) | |
| Other expenses | 7 | (22,970) | (18,923) |
| **Total operating expenses** | | **(3,118,616)** | **(3,038,034)** |
| | | | |
| **Profit before taxation** | | **3,014,942** | **2,202,820** |
| | | | |
| Withholding taxes | | (226,785) | (248,379) |
| | | | |
| **Profit after taxation** | | **2,788,157** | **1,954,441** |
| | | | |
| **Increase attributable to holders of redeemable units of participation** | | **2,788,157** | **1,954,441** |

The accompanying notes form an integral part of these financial statements.

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For identification purposes only

## STATEMENT OF CASH FLOWS
**For the year ended 31 December 2017**

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | € | € |
| **Cash flows from operating activities** | | | |
| Increase attributable to holders of redeemable units of participation | | **2,788,157** | **1,954,441** |
| Adjustment for net foreign exchange loss - cash and cash equivalents | | (1,839,171) | 2,055,107 |
| Adjustment for dividend income | | (1,649,094) | (1,928,196) |
| Adjustment for interest expense and borrowing fee | | 729,048 | 913,224 |
| Adjustment for dividend expense | | 702,458 | 753,901 |
| Adjustments to reconcile increase/(decrease) attributable to holders of redeemable units of participation to net cash (used in)/provided by operating activities: | | | |
| (Increase)/decrease in financial assets at fair value through | | (22,301,792) | 8,104,349 |
| Increase/(decrease) in financial liabilities at fair value though | | 4,503,568 | (2,131,015) |
| (Increase)/decrease in margin cash | | (7,832,578) | 5,739,785 |
| Increase in management fee payable | | 1,368 | 2,507 |
| Increase in performance fee payable | | 312,663 | 241,109 |
| (Decrease) in amounts due to brokers | | (355,581) | (418,678) |
| Decrease in amounts due from brokers | | 166,558 | 195,597 |
| (Decrease)/increase in accrued expenses | | (50,706) | 11,416 |
| Increase in equalisation credit payable | | 10,554 | - |
| **Cash (used in)/provided by operating activities** | | **(24,814,548)** | **15,493,547** |
| Dividend received | | 1,560,827 | 1,919,941 |
| Interest paid | | (727,648) | (913,328) |
| Dividend paid | | (671,015) | (686,159) |
| **Net cash (used in)/provided by operating activities** | | **(24,652,384)** | **15,814,001** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of redeemable units of participation | | 8,251,574 | 3,262,100 |
| Payments from redemptions of redeemable units of | | (5,860,000) | (2,242,600) |
| Cash flow related to equalisation credit/deficit previous year | | (5,088) | (11,878) |
| (Decrease)/increase in subscriptions received in advance | | (20,000) | 20,000 |
| **Net cash flow provided by financing activites** | | **2,366,486** | **1,027,622** |
| Net increase in cash and cash equivalents | | (22,285,898) | 16,841,623 |
| Net foreign exchange loss - cash and cash equivalents | | 1,839,171 | (2,055,107) |
| Cash and cash equivalents at the beginning of the year | | 42,186,173 | 27,399,657 |
| **Cash and cash equivalents at the end of the year** | | **21,739,446** | **42,186,173** |

The accompanying notes form an integral part of these financial statements.

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## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS OF PARTICIPATION
**For the year ended 31 December 2017**

| | Note | Number of shares | 2017 |
|---|---|---|---|
| | | | € |
| **Balance at the beginning of the year** | | 60,181 | 93,584,787 |
| Increase attributable to holders of redeemable units of participation resulting from operations for the year | | - | 2,788,157 |
| Issue of redeemable units of participation during the year | 13 | 9,453 | 8,251,574 |
| Proceeds from redeemable units of participation during the year | 13 | (3,801) | (5,860,000) |
| Redemption related to equalisation deficit previous year | | (3) | (5,088) |
| **Net assets attributable to holders of redeemable units of participation at the end of the year** | | **65,830** | **98,759,430** |

| | Note | Number of shares | 2016 |
|---|---|---|---|
| | | | € |
| **Balance at the beginning of the year** | | 59,483 | 90,622,724 |
| Decrease attributable to holders of redeemable units of participation resulting from operations for the year | | - | 1,954,441 |
| Issue of redeemable units of participation during the year | 13 | 2,145 | 3,262,100 |
| Proceeds from redeemable units of participation during the year | | (1,439) | (2,242,600) |
| Redemption related to equalisation deficit previous year | 13 | (8) | (11,878) |
| **Net assets attributable to holders of redeemable units of participation at the end of the year** | | **60,181** | **93,584,787** |

The accompanying notes form an integral part of these financial statements.

PricewaterhouseCoopers Accountants N.V. For identification purposes only

**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2017**

## 1. FUND INFORMATION

*General*
The Pelargos Japan Alpha Fund (the "Fund") is an open-ended investment fund incorporated on 19 June 2008. The first trade date for Class B (Euro) units of participation was on trade date 11 July 2008. Initial subscriptions for Class A (Euro) units of participation were received on trade date 27 January 2009. The Fund is not listed on any stock exchange. The units of participation are registered per investor.

On 11 May 2017 the Manager decided to introduce a new Class C units of participation. The Class C units of participation may be issued in two subclasses denominated in US Dollars and in Euro.

The first trade date for the Class C (USD) units of participation was on trade date 3 July 2017.

The Fund will, under certain conditions, be able to issue and purchase units of participation. Issue and redemption of units of participation is possible on a dealing date, which is the first business day of each month. The Manager holds the right to suspend redemptions in case of extreme market circumstances in case of a significant size of the redeemed amount. The right to suspend redemptions is explained in more detail in the Prospectus of the Fund.

The Fund is a Fund for Joint Account, which means that there is a contractual obligation among the Manager, the Legal Owner and the Participant. The Manager has an Alternative Investment Fund Managers Directive (AIFMD) license and is regulated by the Netherlands Authority for the Financial Markets (AFM) and the Dutch Central Bank. Per 1 March 2017 the AIFMD license has been extended with the following investment services provided to professional investors only: (i) individual portfolio management, (ii) investment advice and (iii) receiving and transmitting investment orders.

The Bank of New York Mellon SA/NV, Amsterdam Branch, provides administration and transfer agency services to the Fund. Certain administration services are being outsourced to BNY Mellon Fund Services (Ireland) DAC in Dublin, Ireland. BNY Mellon Fund Services (Ireland) DAC is a licensed entity, authorised and regulated by the Central Bank of Ireland. Furthermore, certain services in relation to transfer agency are being outsourced to The Bank of New York Mellon (Luxembourg) S.A.

The Fund's objective is to achieve capital appreciation through investing in long and short positions in equities related to Japanese enterprises. The Fund seeks to limit the downward risk and aims for returns that have a low correlation with the returns of the market index. To achieve the Fund's objective, the Manager may use leverage. Potentially increasing the return of the Fund through derivative positions and securities borrowing as well as increasing the exposure of the Fund by borrowing cash are regarded as leveraging techniques. The Fund may use leverage to achieve the return targets or for liquidity reasons in case units of participation are redeemed. Assets will predominantly be invested in Japanese securities.

*Classes of Participations*
The assets of the Fund are divided into several Classes of Participation, with a specific fee structure, and if applicable lock-up period, for each Class of Participation. The underlying investments and risk profile of the various Classes of Participation are identical. Each Class of Participation may be further segmented in subclasses of participation, each such subclass of participation to be denominated in a different currency.

## 2. PRINCIPAL ACCOUNTING POLICIES

*(a) Statement of compliance*
The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and the Dutch Financial Supervision Act and Title 9 book 2 Dutch Civil Code.

*(b) Basis of preparation*
The financial statements have been prepared on a historical cost basis, except for financial instruments classified at fair value through profit or loss which have been measured at fair value. All accounting policies adopted by the Fund are consistent with the audited financial statements for the year ended 31 December 2016.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

2. PRINCIPAL ACCOUNTING POLICIES (continued)

*(b) Basis of preparation (continued)*

The financial statements are presented in Euros (€).

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Manager believes that the estimates utilised in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

The Fund's functional and presentation currency is the Euro. As most holders of units of participation, the Manager and the Legal Owner are based and operate in Euro markets, the Fund's performance is evaluated and its liquidity is managed in Euro.

*New standards, interpretations and amendments adopted by the Fund effective as of 1 January 2017:*

*IAS 7 – Disclosure Initiative – Amendments to IAS 7*
The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in liabilities arising from financing activities. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. This amendment became effective as of 1 January 2017 and has had no impact on the Fund's presentation in the Statement of Cash Flows.

It has been concluded there will be no expected impact to the Fund.

*New standards, amendments and interpretations effective after 1 January 2018 and have not yet been early adopted by the Fund.*

The below mentioned standards, amendments to standards and interpretations in issue are not yet effective, and have not been applied in preparing these financial statements. Management is currently assessing the possible impact of these new standards and interpretations.

*IFRS 9 Financial Instruments (effective date 1 January 2018)*
IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and Measurement with a single model that has initially only two classification categories: amortised cost and fair value. Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.

All fair value movements on financial assets are recorded in the Statement of Profit and Loss, except for equity investments that are not held for trading, which may be recorded in the Statement of Profit and Loss or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option entities will need to recognise the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than in the Statement of Profit and Loss.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

2. PRINCIPAL ACCOUNTING POLICIES (continued)

*New standards, amendments and interpretations effective after 1 January 2018 and have not yet been early adopted by the Fund. (continued)*

*IFRS 9 Financial Instruments (effective date 1 January 2018) (continued)*

The new hedge accounting rules (released in December 2013) align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

In December 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

On adoption of IFRS 9 the Fund's investment portfolio will continue to be classified as fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortised cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements.

*IFRS 15 Revenue from contracts with customers (effective 1 January 2018)*
The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:
(i) identify contracts with customers
(ii) identify the separate performance obligation
(iii) determine the transaction price of the contract
(iv) allocate the transaction price to each of the separate performance obligations, and
(v) recognise the revenue as each performance obligation is satisfied.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures. In the Manager's opinion, adoption of IFRS 15 would have no material impact on the recognition, measurement or disclosures in the Fund's financial statements.

*(c) Financial instruments*

*Financial assets and liabilities at fair value through profit or loss*
The category of financial assets and liabilities at fair value through profit or loss are categorised as financial assets and liabilities held for trading. These include equities, options, contracts for difference ("CFD"), futures, forward foreign currency contracts and liabilities from short sales of financial instruments.

These instruments are acquired or incurred principally for the purpose of generating a profit from short-term fluctuation in price. Derivatives are categorised as held for trading, as the Fund does not designate any derivatives as hedges for hedge accounting purposes as described under IAS 39 Financial Instruments: Recognition and Measurement.

*Initial measurement*
Purchases and sales of financial instruments are accounted for at trade date. Realised gains and losses on disposals of financial instruments are calculated using the first-in-first-out ("FIFO") method. Financial instruments categorised at fair value through profit or loss are measured initially at fair value. Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in net gain or loss on financial assets and liabilities at fair value through profit or loss.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

2. PRINCIPAL ACCOUNTING POLICIES (continued)

*(c) Financial instruments (continued)*

*Subsequent measurement*
After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments traded in active market is based on their quoted market prices or sourced from a data vendor, at the Statement of Financial Position date without any deduction for estimated future selling costs. Financial asset are priced at their current bid prices, while financial liabilities are priced at their current offer price.

For all other financial instruments not traded in an active market and if a quoted market price is not available from a data vendor, the fair value of the financial instruments may be estimated by the Manager using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Subsequent changes in the fair value of financial instruments at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

Where the Fund has assets and liabilities with offsetting market risks it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the bid or offer price to the net position as appropriate

*(d) Recognition*
The Fund recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

*(e) Derecognition*
The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expired or it transfers the financial asset and the transfer qualifies for derecognition.

The Fund derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expired.

*(f) Offsetting financial instruments*
Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realised the asset and settle the liability simultaneously.

*(g) Forward foreign currency contracts*
The fair value of open forward foreign currency exchange contracts is calculated as the difference between the contracted rate and the current forward rate that would close out the contract on the Statement of Financial Position date. Net gain or loss on financial assets and liabilities at fair value through profit or loss in the Statement of Comprehensive Income.

*(h) Contract for difference (CFD)*
A CFD is an agreement between two parties to exchange the difference between the opening and closing value of a position in a specific financial instrument, such as quoted securities, index and foreign exchange. The daily changes in contract value are recorded as unrealised gains or losses and the Fund recognises a realised gain or loss when the contract is closed. Unrealised gains and losses on CFDs are recognised through net (loss)/gain on financial assets and liabilities at fair value through profit or loss in the Statement of Comprehensive Income.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

2. PRINCIPAL ACCOUNTING POLICIES (continued)

*(i) Other derivative contracts*
For open futures contracts and options, changes in the value of the contract are recognised as unrealised gains or losses by "marking to market" the value of the contract at the Statement of Financial Position date. When the contract is settled, the difference between the proceeds from (or cost of) the closing transactions and the original transaction is recorded in the net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the Statement of Comprehensive Income.

*(j) Redeemable units of participation*
The Fund currently has three classes of redeemable units of participation in issue, Class A (Euro) units, Class B (Euro) units, and Class C (USD) units which are redeemable at the Participant's option. Class A units, Class B units, and Class C units differ from each other with respect to management fees, whereas Class A units differ from Class B units and Class C units with respect to performance fees. Redeemable units of participation can be put back to the Fund at any Dealing day for cash equal to a proportionate share of the Fund's net asset value attributable to the share class.

Units of participation are redeemable monthly. The redeemable units of participation are carried at the redemption amount that is payable at the Statement of Financial Position date if the holder exercised the right to put the unit of participation back to the Fund.

*(k) Subscription and redemption fees*
A fee could be charged upon each issue, transfer or redemption of a unit of participation of up to 1.0%. The actual fee charged is set by the Manager, is credited to the Fund and is charged to cover transaction related costs.

*(l) Interest income/expense and borrowing fee*
Interest income and interest expense are recognised on an accruals basis in line with the contractual terms. The majority of the interest expense in the Statement of Comprehensive Income includes cash interest and borrowing fee. Borrowing fee is paid fee related to stock loan activities.

*(m) Expenses*
Expenses are recognised in the Statement of Comprehensive Income on an accrual basis accounted in the year that the costs are incurred.

*(n) Dividend income and expense*
Dividends are credited to the Statement of Comprehensive Income on the dates on which the relevant securities are listed as "ex-dividend". Income is shown gross of any non-recoverable withholding taxes, which is disclosed separately in the Statement of Comprehensive Income, and net of any tax credits. Dividend expense relating to equity securities sold short is recognised when the shareholders' right to receive the payment is established.

*(o) Statement of Cash Flows*
The Statement of Cash Flows is prepared according to the indirect method. For the purposes of the Statement of Cash Flows, financial instruments at fair value through profit or loss are included under operating activities. Cash flows from financing activities include proceeds from subscriptions and payments for redemptions of shares of the Fund.

*(p) Foreign currency translation*
*Functional and presentation currency*
Items included in the Fund's financial statements are measured and presented using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Euro, which reflects the Fund's domicile. The currency of subscriptions into and redemptions out of the Fund is Euro.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

2. PRINCIPAL ACCOUNTING POLICIES (continued)

*(p) Foreign currency translation (continued)*

*Foreign currency transactions*
Monetary assets and liabilities denominated in currencies other than Euro are translated into Euro at the closing rates of exchange at each year-end. Transactions during the year, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction. Foreign currency translation gains and losses are included in net foreign exchange gain/(loss) in the Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

*(q) Cash and cash equivalents*
Cash consists of cash at bank and bank overdrafts. Cash equivalents consist of short-term investments available to the Fund with original maturities of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash is held with Goldman Sachs International, UBS AG, Nomura International plc and The Bank of New York Mellon SA/NV, Amsterdam Branch.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as 'cash and cash equivalents'.

*(r) Taxation*
The Fund is organised as a fund for joint account ("Fonds voor Gemene Rekening") as defined in article 2 paragraph 2, of the Dutch Corporate Income Tax Act ("CITA") ("Wet op de vennootschapsbelasting 1969") and qualifies as a tax exempt investment fund ("Vrijgestelde Beleggingsinstelling") within the meaning of article 6a, CITA. Consequently, the Fund will be fully exempt from corporate income tax in The Netherlands.

All payments by the Fund under the participations can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

The issuance or transfer of a participation, and payments under a participation, will not be subject to value added tax in The Netherlands.

The subscription, issue, placement, allotment, delivery or transfer of a participation, will not be subject to registration tax, stamp duty or any other similar tax or duty payable in The Netherlands.

In some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income.

The Fund presents the withholding tax separately from the gross investment income in the Statement of Comprehensive Income. For the purpose of the Statement of Cash Flows, cash inflows from investments are presented net of withholding taxes, when applicable.

*(s) Significant accounting estimates and judgment in applying accounting policies*
Application of the accounting policies in the preparation of the Fund financial statements may require the Manager to apply judgment involving assumptions and estimates concerning future results and other developments including the likelihood, timing or amount of future transactions or events.

The Fund has no significant accounting estimates that require complex estimates or significant judgment in applying its accounting policies.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

2. PRINCIPAL ACCOUNTING POLICIES (continued)

*(t) Short sales*
The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security. Short sales are classified as financial liabilities at fair value through profit or loss.

*(u) Transaction costs*
The costs charged by brokers in relation to the purchase or sale of financial instruments form the main component of the cost of a transaction. In addition, transaction-related taxes and duties such as registration tax and stamp duties may apply. Transaction costs incurred with an opening position in equities and are included in the net consideration. Transaction costs incurred with the closing of a position in equities and are included in the net consideration. Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, brokers and dealers. Transaction costs, when incurred, are immediately recognised in net gain or loss on financial assets and liabilities at fair value through profit or loss.

*(v) Other expenses*
Other expenses are recognised on the Statement of Comprehensive Income on an accruals basis.

*(w) Margin accounts*
Cash collateral provided by the Fund is identified in the Statement of Financial Position as margin cash and is not included as a component of cash and cash equivalents. Margin accounts represent cash deposits with brokers, transferred as collateral against open futures or other securities.

*(x) Amounts due from/(to) brokers*
Amounts receivable from and payable to brokers include cash balances with the Fund's Prime Brokers and amounts receivable or payable for securities transactions that have not settled at the year-end. Certain amounts of this cash results from the proceeds of trading securities sold short and may therefore be subject to withdrawal restrictions until such time as the securities are purchased by the Fund. The Fund has also purchased securities on margin and the related margin balances are secured on certain of the Fund's investments in securities.

*(y) Other payables and accrued expenses*
Expenses payable at year-end and accrued expenses are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

(*z*) *Subscriptions received in advance*
Subscriptions received in advance represent accepted subscriptions made during the post Statement of Financial Position period for which payment has been received by the Fund before year-end but for which redeemable units will only be issued in the next financial period. Subscriptions received in advance are initially recognised at fair value and subsequently stated at amortised cost using the effective interest method.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

3. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

**Movement schedule investments**

| *Equity securities* | **2017** | **2016** |
|---|---|---|
| | **€** | **€** |
| Beginning market value 1 January | 25,208,586 | 30,831,687 |
| Purchase | 270,020,738 | 180,603,479 |
| Sale | (255,615,014) | (191,003,804) |
| Revaluation | 3,479,139 | 4,777,224 |
| **Ending market value 31 December** | **43,093,449** | **25,208,586** |

| *Forward foreign currency contracts* | **2017** | **2016** |
|---|---|---|
| | **€** | **€** |
| Beginning market value 1 January | - | - |
| Purchase | 76,647,887 | - |
| Settlement of contracts | (76,446,931) | - |
| Revaluation | (263,908) | - |
| **Ending market value 31 December** | **(62,952)** | **-** |

| *Futures* | **2017** | **2016** |
|---|---|---|
| | **€** | **€** |
| Beginning market value 1 January | - | 765 |
| Purchase | - | 510,854 |
| Settlement of contracts | - | 211,485 |
| Revaluation | - | (723,104) |
| **Ending market value 31 December** | **-** | **-** |

| *Options* | **2017** | **2016** |
|---|---|---|
| | **€** | **€** |
| Beginning market value 1 January | 23,687 | 1,194,327 |
| Purchase | 1,368,359 | 7,068,171 |
| Sale | (822,108) | (10,316,457) |
| Revaluation | (569,938) | 2,077,646 |
| **Ending market value 31 December** | **-** | **23,687** |

| *Contracts for difference* | **2017** | **2016** |
|---|---|---|
| | **€** | **€** |
| Beginning market value 1 January | - | (821,172) |
| Purchase | - | (1,400,734) |
| Sale | - | 2,992,215 |
| Revaluation | - | (770,309) |
| **Ending market value 31 December** | **-** | **-** |

| ***Total*** | **2017** | **2016** |
|---|---|---|
| | **€** | **€** |
| Beginning market value 1 January | 25,232,273 | 31,205,607 |
| Purchase | 348,036,984 | 186,781,769 |
| Sale | (332,884,053) | (198,116,561) |
| Revaluation | 2,645,293 | 5,361,458 |
| **Ending market value 31 December** | **43,030,497** | **25,232,273** |

Purchase and sale on forward foreign currency contracts and options investments reflect only the realised gains and losses of closing transactions.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

3. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

As at 31 December 2017 and 31 December 2016, financial assets and liabilities at fair value through profit or loss were as follows:

| **Financial assets at fair value through profit or loss:** | **2017** | **2016** |
|---|---|---|
| | **€** | **€** |
| Equity securities | 87,812,269 | 65,486,790 |
| Options | - | 23,687 |
| Financial assets at fair value through profit or loss | 87,812,269 | 65,510,477 |
| **Financial liabilities at fair value through profit or loss:** | | |
| Equity securities | (44,718,820) | (40,278,204) |
| Forward foreign currency contracts | (62,952) | - |
| Financial liabilities at fair value through profit or loss | (44,781,772) | (40,278,204) |
| **Total financial assets and financial liabilities at fair value through profit or loss** | **43,030,497** | **25,232,273** |

In Note 11 risks associated with those financial instruments held are described.

As at 31 December 2017 and 31 December 2016, listed equity securities, forward foreign currency contracts and options at fair value through profit or loss are recorded at fair value based on quoted market prices in active markets.

For years ended 31 December 2017 and 31 December 2016, the net gains and losses breakdown of net gain or loss on financial assets and liabilities at fair value through profit or loss was as follows:

| | **2017** | **2016** |
|---|---|---|
| | **€** | **€** |
| Realised gains | 16,194,859 | 29,807,938 |
| Unrealised gains | 13,156,118 | 10,317,694 |
| Realised losses | (14,275,204) | (23,553,858) |
| Unrealised losses | (12,430,480) | (11,210,316) |
| **Total** | **2,645,293** | **5,361,458** |

The financial assets and liabilities at fair value through profit or loss are classified under category 'assets and liabilities at fair value through profit and loss' under IFRS 7 Financial Instruments - Disclosures. The remaining financial instruments are classified under category 'loans and receivables' and 'other financial liabilities' under IFRS 7.

4. CASH AND CASH EQUIVALENTS

Cash represents short-term funds available to the Fund.

| | **2017** | **2016** |
|---|---|---|
| | **€** | **€** |
| Cash at broker | 13,711,856 | 42,186,173 |
| Banks Overdrafts | (489,222) | - |
| Money Market Fund | 8,516,812 | - |
| **Total** | **21,739,446** | **42,186,173** |

Cash at broker relates to cash balances with the fund's Prime Brokers, excluding margin requirements.

The Fund held a Money Market Fund managed by Goldman Sachs International, that is the Goldman Sachs Euro Liquid Reserves Fund.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

5. MARGIN ACCOUNTS

Margin accounts represent cash deposits with brokers, transferred as collateral against open futures or other securities.

The Prime Brokers calculate the maximum amount to be loaned on the basis of all long and short securities held at the Prime Broker; this is called the total margin requirement. The Fund does not provide individual securities as collateral for each individual short security transaction. The total short position is taken into account in the calculation of margin requirement. The total amount of margin requirements with the Fund's Prime Brokers was €30,333,551 (31 December 2016: €23,934,160) with Goldman Sachs International and €1,993,327 (31 December 2016: €560,140) with UBS AG and €Nil (31 December 2016: €Nil) with Nomura International plc at 31 December 2017.

| | 2017 | 2016 |
|---|---|---|
| | € | € |
| Margin accounts | 32,326,878 | 24,494,300 |
| **Total** | **32,326,878** | **24,494,300** |

6. AMOUNTS DUE FROM/(TO) BROKERS

Amounts receivable from and payable to brokers include cash balances with the Fund's Prime Brokers and amounts receivable or payable for securities transactions that have not settled at the year-end. Certain amounts of this cash results from the proceeds of trading securities sold short and may therefore be subject to withdrawal restrictions until such time as the securities are purchased by the Fund. The Fund has also purchased securities on margin and the related margin balances are secured on certain of the Fund's investments in securities.

As at 31 December 2017 and 31 December 2016, the following were held as amounts due to or from brokers:

| | 2017 | 2016 |
|---|---|---|
| | € | € |
| Balances due from brokers | 2,372,865 | 2,539,423 |
| Balances due to brokers | (90,722) | (446,303) |
| **Net amounts due from brokers** | **2,282,143** | **2,093,120** |

7. FEES AND EXPENSES

*Management fee*
The management fee is charged to the Fund and is credited to the Manager. The management fee is levied once a month.

The management fee is set as an annual percentage of 1.5% of the gross asset value (GAV) for Class A units of participation, 1.0% of the GAV for Class B units of participation and 0.5% of the gross asset value (GAV) for Class C units of participation (before deduction of the accrued performance fee).

The management fee is accrued on a monthly basis. The fee is payable, in arrears following the completion and finalization of each month end net asset value. Management fees of €913,022 (31 December 2016: €914,172) were incurred for the year ended 31 December 2017, of which €81,042 (31 December 2016: €79,674) was payable at 31 December 2017.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

7. FEES AND EXPENSES (continued)

*Performance fee*
The performance fee is charged on a unit by unit basis and is credited to the Manager. The performance fee is calculated and accrued for in each net asset calculation as at each month end.

The performance fee is equal to 20% of the annual increase in the net asset value of the capital of Class A units of participation. The performance fee is 15% of the annual increase in the net asset value of the capital of Class B units of participation. The performance fee is 15% of the annual increase in the net asset value of the capital of Class C units of participation. The performance fee will be calculated on the basis of an annual period from calendar year-end to calendar year-end. In a year of introduction of a new Class in a specific currency, the performance fee will be based on the period from introduction date to calendar year-end. A high watermark applies. Performance fees of €553,772 (31 December 2016: €247,524) were incurred for the year ended 31 December 2017, of which €553,772 (31 December 2016: €241,109) was payable at 31 December 2017.

*Performance fee – equalisation*
The performance fee is calculated according to the "equalisation" method, which means that each participant pays a fee that truly corresponds to the increase in value of the units of participation that he/she holds. Participations are subscribed to against the gross asset value per unit of participation. If the subscription price exceeds the high water mark (HWM) on a dealing day, an equalisation credit is granted to the participant. Following the date of grant, the value of the equalisation credit fluctuates with the increase and decrease of the NAV. The equalisation credit will at no time turn into a negative value, and it will not increase beyond the value at the time of issue. By issuing participations against the value of the participant's equalisation credit at the ultimate valuation day of the financial year of the Fund, the credit will be finally settled. The equalisation credit as of 31 December 2017 amounted to €10,554 (31 December 2016: €Nil).

*Performance fee – equalisation (continued)*
Conversely, a participant that acquires participations at a time that the HWM exceeds the NAV per participation, at which point in time the GAV equals the NAV as no performance fee is accrued, will build up an equalisation deficit from the moment that the NAV per participation exceeds the NAV at the time of issue. Any deficit will be finally settled by way of mandatory redemption of the equalisation deficit bearing participations. The Manager is entitled to the ensuing claim. Redemption will take place per the ultimate dealing day of the financial year of the Fund, or at redemption during the year. The equalisation deficit as of 31 December 2017 amounted to €52 (31 December 2016: €5,088).

*Other costs charged to the assets of the Fund*

| | 2017 | 2016 |
|---|---|---|
| | € | € |
| Administration fee | 93,413 | 94,650 |
| Audit fee | 34,287 | 30,500 |
| Costs of supervision | 12,000 | 16,000 |
| Depositary fee | 33,555 | 32,990 |
| Legal fee | - | 5,000 |
| Other expenses | 22,970 | 18,923 |
| Trustee fee | 13,537 | 11,150 |
| | **209,762** | **209,213** |

Costs of supervision are fees charged by the supervising authorities AFM and the Dutch Central Bank.

The Depositary charges a fee as an annual percentage of 0.03% of the NAV at each month end, subject to a minimum fee of €25,000 per annum.

The Legal Owner receives a trustee fee of €11,000 on an annual basis, excluding VAT and indexation starting in 2015.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

7. FEES AND EXPENSES (continued)

*Other expenses*

| | 2017 | 2016 |
|---|---|---|
| | € | € |
| Miscellaneous expenses | 1,500 | - |
| Brokerage fee (excluded in Ongoing Charges Figure) | 17,437 | 18,923 |
| **Total other expenses** | **18,937** | **18,923** |

*Ongoing Charges Figures*
The Ongoing Charges Figure (OCF) is a ratio of the total ongoing costs to the average net assets value of the Fund. Ongoing costs include cost of investment management and administration, plus other costs of running the fund, such as fees for custodians, regulators and independent auditors. Transaction costs of investments, interest expenses and performance fee are excluded from the calculation. The OCF will be calculated once a year, the figure for year ended 31 December 2017 and 31 December 2016 is as follows:

| | Ongoing Charges % | |
|---|---|---|
| | 2017 | 2016 |
| Class A (EUR) | 1.70% | 1.71% |
| Class B (EUR) | 1.20% | 1.21% |
| Class C (USD) | 0.70% | - |

*Performance fee ratio*
Performance fee ratio is a ratio of the total performance fee (including equalisation deficit) to the average net assets value of the Fund. This ratio will be calculated once a year. As of end of 2017 and 2016 the ratio is as follows.

| | Performance fee ratio | |
|---|---|---|
| | 2017 | 2016 |
| Class A (EUR) | 0.65% | 0.04% |
| Class B (EUR) | 0.56% | 0.28% |
| Class C (USD) | 0.79% | - |

*Subscription and redemption fees*
The Fund may upon issue and redemption of a unit of participation charge a fee up to 1.0% of the subscription and redemption amount. These costs may be charged in order to cover the costs incurred in transactions related to subscription and/or redemption and are credited to the Fund. During the year ended 31 December 2017, the Fund did not charge a fee (31 December 2016: €Nil).

*Soft dollar arrangement*
The Manager may choose to allocate transactions to brokers with whom the Manager has concluded a commission sharing agreement (CSA). A CSA is concluded with a view to allowing the Manager to provide a better level of service to the Fund, with the aim of improving the results. Pursuant to a CSA, the broker receives a commission for executing a transaction that is split ('unbundled') into: 1) execution and 2) research. The sum of money received by the broker that is related to research is entered into a separate account and may be used by the Manager in order to pay for certain services rendered by either the broker or by a third party. The Manager will, however, at all times aim for best execution.

The Fund has entered into a CSA with Merrill Lynch and Instinet in order to facilitate the purchase of generic, macro-economic, technical and company specific research services from, for example: TIS Group, Marc Faber, GMI, QAS, Elliot Wave Starmine and Tap Japan

*Transaction costs*
Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, brokers and dealers. Transaction costs, when incurred, are immediately recognised in net gain or loss on financial assets and liabilities at fair value through profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

7. FEES AND EXPENSES (continued)

*Transaction costs (continued)*

The transaction costs amounted to €787,893 in 2017 (2016: €431,715).

*Comparison realised costs versus costs included in Prospectus*
Article 123 paragraph 1 sub j of the Decree on the Supervision Conduct of Financial Enterprises (Bgfo) requires a comparison between the actual costs for the reporting year and the costs as mentioned in the Prospectus.

**31 December 2017**

| | **Actual Costs** | **Estimated costs Prospectus** |
|---|---|---|
| Management fee | €913,022 | % of GAV: Class A=1.5%, Class B=1.0% and Class C=0.5% |
| Performance fee | €553,772 | % of annual increase GAV: Class A=20%, Class B=15% and Class C=15% |
| Administration fee | €93,413 | +/- of 0.095% of NAV |
| Trustee fee | €13,537 | Annual fee €11,000 |
| Independent auditor's and advisor fee* | €46,287 | Not Specified |
| Depositary fee | €33,555 | 0.03% of the NAV |
| Other costs** | - | Not Specified |

*Comparison realised costs versus costs included in Prospectus (continued)*

**31 December 2016**

| | **Actual Costs** | **Estimated costs Prospectus** |
|---|---|---|
| Management fee | €914,172 | % of GAV: Class A=1.5% and Class B=1.0% |
| Performance fee | €247,524 | % of annual increase GAV: Class A=20% and Class B=15% |
| Administration fee | €94,650 | +/- of 0.095% of NAV |
| Trustee fee | €11,150 | Annual fee €11,000 |
| Independent auditor's and advisor fee* | €51,500 | Not Specified |
| Depositary fee | €32,990 | 0.03% of the NAV |
| Other costs** | - | Not Specified |

* Independent auditor's and advisor's costs include audit fee, legal fee and cost of supervision. Audit fee refers to services provided by the independent auditor and relate to the audit of the Financial Statements. The independent auditor is also involved in the examination of the Prospectus of the Fund. This is recorded under the legal fee.
** Other costs include miscellaneous expenses.

*Portfolio Turnover Rate*
The Portfolio Turnover Rate indicates the turnover ratio of the Fund's portfolio. This rate is an indicator of how actively the investment portfolio is being altered as a consequence of investment decisions and is therefore a function of the investment policy and specifically gross exposure.

The Turnover Rate is calculated as follows:
[(Total 1 – Total 2) / X] *100
Total 1: the total amount of investment transactions (purchase and sale of all cash equity, CFD, options and futures investments)
Total 2: the total amount of subscriptions and redemptions by Participants
X: average net asset value of the Fund.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

7. FEES AND EXPENSES (continued)

| | 2017 | 2016 |
|---|---|---|
| | € | € |
| Securities purchase | 270,175,486 | 259,007,950 |
| Securities sale | 255,536,237 | 268,405,792 |
| **Total securities transactions** | **525,711,723** | **527,413,742** |
| | | |
| Subscriptions Participants | 8,251,574 | 3,262,100 |
| Redemptions Participants | 5,860,000 | 2,242,600 |
| **Total movement in participations** | **14,111,574** | **5,504,700** |
| | | |
| Average net asset value | 92,866,921 | 90,469,225 |
| | | |
| **Turnover Rate** | **551%** | **577%** |

8. ACCRUED EXPENSES

| | 2017 | 2016 |
|---|---|---|
| | € | € |
| Administration fee | 24,828 | 57,893 |
| Audit fee | 13,794 | 31,973 |
| Costs of supervision | 12,321 | 321 |
| Depositary fee | 8,986 | 14,595 |
| Legal and tax advice fees | 5,225 | 16,524 |
| Trustee fee | 3,377 | 3,446 |
| Other accrued expenses | 5,515 | - |
| **Total** | **74,046** | **124,752** |

9. INTEREST INCOME/EXPENSE AND BORROWING FEE

| | 2017 | 2016 |
|---|---|---|
| | € | € |
| Interest expense | (524,740) | (695,213) |
| Borrowing fee | (204,308) | (218,011) |
| **Total** | **(729,048)** | **(913,224)** |

Borrowing fees incurred during the year resulted from borrowing securities in relation to short positions.

10. DIVIDEND INCOME/EXPENSE

| | 2017 | 2016 |
|---|---|---|
| | € | € |
| Gross dividend income | 1,649,094 | 1,928,196 |
| Dividend expense on securities sold short | (702,458) | (753,901) |
| **Total** | **946,636** | **1,174,295** |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

Risk management is an integral part of the investment and the operational process. Risk management can be distinguished in financial risk management, operational risk management and independent risk measurement. Financial risk management encompasses all elements of the investment process. A number of risk management systems allow us to notice any deviations from intended positioning and targets. Operational risk management encompasses the four areas of potential losses: processes, systems, people and external events. Risk measurement is an independent function, which is functionally separated from the operational department and portfolio management.

The Fund's investment objective is to preserve capital and then achieve absolute returns for Participants by investing in securities of Japanese companies. The Fund aims to achieve strong risk adjusted returns without large exposure to the overall stock market and without taking high volatility single factor risks.

*Financial instruments and associated risks*
The Fund will primarily invest in a diversified portfolio consisting of long and short positions in listed equities. The Fund may utilize derivative financial instruments for the purpose of risk management and for potentially improving returns.

The nature and extent of the financial instruments outstanding at the Statement of Financial Position date and the risk management policies employed by the Fund are discussed below.

The Fund is exposed to several risks. The Prospectus of the Fund describes an extensive list. The following risks are described below: equity risk, currency risk, concentration risk, interest rate risk, credit risk and liquidity risk. Each type of risk is arising from the financial instruments it holds and is discussed in turn below. Qualitative and quantitative analyses are provided where relevant to give the reader an understanding of the risk management methods used by the Manager.

*Fair value estimation*
IFRS 13 Fair Value Measurement states that when measuring fair value, the objective is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. to estimate an exit price).

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets for liabilities that the entity can access at the measurement date
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.
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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Fair value estimation (continued)*
The following tables analyses the fair value hierarchy of the Fund's financial assets and liabilities measured at fair value at the year ended 31 December 2017 and as at 31 December 2016:

| Financial assets at fair value through profit or loss | 31 December 2017 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | € | € | € | € |
| Equity securities | 87,812,269 | 87,812,269 | - | - |
| **Total** | **87,812,269** | **87,812,269** | **-** | **-** |

| Financial liabilities at fair value through profit or loss | 31 December 2017 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | € | € | € | € |
| Equity securities | (44,718,820) | (44,718,820) | - | - |
| Derivatives | (62,952) | - | (62,952) | - |
| **Total** | **(44,781,772)** | **(44,718,820)** | **(62,952)** | **-** |

| Financial assets at fair value through profit or loss | 31 December 2016 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | € | € | € | € |
| Equity securities | 65,486,790 | 65,486,790 | - | - |
| Derivatives | 23,687 | 23,687 | - | - |
| **Total** | **65,510,477** | **65,510,477** | **-** | **-** |

| Financial liabilities at fair value through profit or loss | 31 December 2016 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | € | € | € | € |
| Equity securities | (40,278,204) | (40,278,204) | - | - |
| **Total** | **(40,278,204)** | **(40,278,204)** | **-** | **-** |

For the year ended 31 December 2017 and the year ended 31 December 2016, there were no transfers between Levels.

For assets and liabilities carried at amortised cost, their carrying values are a reasonable approximation of fair value.

*Equity risk*
Equity risk is the risk that the Fund is exposed to the volatility of the fair value of the equity securities it holds. The fair value of individual securities may fluctuate as a result of e.g. company specific news, broad market movements, interest rate risk or foreign currency movements. The Manager continuously monitors the (potential) determinants of the value of the securities held and the total portfolio value. As such, risk management is an integral part of investment management which comprises security selection and portfolio construction. Frequently various stock, sector and country exposures are measured and managed against the norms which have been defined for those exposures. Further the overall portfolio is monitored using various (external) portfolio risk (optimizing) systems to monitor and manage market or style exposures.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Equity risk (continued)*
The value of the securities the Fund holds is partly driven by general market movements. As the Fund has long and short positions in securities, the Fund aims to control its exposure to these general market movements. The following table represents management's best estimate of the effect on the Fund's total net assets due to a 25% change in the market equity price, with all other variables held constant.

The Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. The Beta of a portfolio can be measured by a regression of the portfolio return with the market return, i.e. the ex-post Beta. The Beta of a portfolio can also be measured as the weighted average of the Beta's of the underlying securities, i.e. the ex-ante Beta. Please note that the calculation of a Beta is based upon historical data. It therefore gives an insight in the co-movement of the portfolio with the market as a whole; such calculated Beta can be used as an estimate for the co-movement going forward. Significant differences may occur between the estimate and the co-movement that occurs next year.

The ex-post Beta for the Fund was 0.09 (2016: 0.07), calculated from a regression of the daily returns of the Fund on the MSCI Japan index, from 1 January to 31 December 2017. The ex-ante Beta measured at year-end 2017 is 0.30 (2016: 0.31). (Source: Nomura TradeSpex.)

**31 December 2017**

| **Market index** | **Ex-ante Beta** | **Change** | **Effect on net assets and profit** | **Change** | **Effect on net assets and profit** |
|---|---|---|---|---|---|
| | | **%** | **€** | **%** | **€** |
| MSCI Japan Index | 0.30 | 25% | 9,940,349 | -25% | (9,940,349) |

**31 December 2016**

| **Market index** | **Ex-ante Beta** | **Change** | **Effect on net assets and profit** | **Change** | **Effect on net assets and profit** |
|---|---|---|---|---|---|
| | | **%** | **€** | **%** | **€** |
| MSCI Japan Index | 0.31 | 25% | 8,272,562 | -25% | (8,272,562) |

If an investment portfolio of a fund is relatively concentrated, it is considerably dependent on volatility in specific equities (idiosyncratic risk). The Manager has defined several guidelines to adhere to, with respect to maximum percentages held on a security and sector level. The Fund's investments are all well within the guidelines as described in the Prospectus. The portfolio of the Fund is fairly diversified as is illustrated by the percentages held as disclosed in the sector allocation. The long and short positions are showed separately as a percentage of the net asset value. The net exposure per sector is also stated as a percentage of the net asset value.

*Currency risk*
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency (Euro). The Fund may hold cash in and securities denominated in other currencies. The value of such holdings, expressed in the currency in which the pertinent (Sub) Class of Participations is administered, may therefore be influenced by currency fluctuations.

IFRS 7 Financial Instruments - Disclosures considers the foreign exchange exposure related to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. The Fund however monitors the exposure on all foreign currency denominated assets and liabilities.

The following table demonstrates management's best estimate of the sensitivity to a reasonable change in the foreign exchange rates, with all other variables being constant, of the most representative Fund's foreign currency exposures. The currency sensitivity below is based upon a movement of exchange rates and the direct currency exposures as a result of Fund holdings which are denominated in currencies other than Euro, the functional currency of the Fund.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Currency risk (continued)*
The Fund has the possibility to hold and to manage currency exposures, but in principle will hedge significant exposures.

The sensitivity analysis for the currency exposures held by the Fund is based on the assumption of a 10% movement in the foreign exchange rates against the Fund's functional currency (Euro). The table below is based upon the breakdown of the assets and liabilities in the different currencies.

Please note that the table below is based upon the holdings as at 31 December 2017 and 31 December 2016; currency exposures continuously change.

The Fund's currency risk is managed on a daily basis by the Manager in accordance with policies and procedures which are in place.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Currency risk (continued)*

The total economic exposure to different currencies at 31 December 2017 was:

| | Financial assets/ (liabilities) at fair value through profit or loss | Cash and amounts due from/ (to) brokers | Other assets/ (liabilities) | Net currency exposure | In % of total net assets | +10% Movement | -10% Movement |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | % | € | € |
| JPY | 43,093,449 | (44,039,978) | 2,385,893 | 1,439,364 | 1.46 | 143,936 | (143,936) |
| USD | (62,952) | 1,795,885 | - | 1,732,933 | 1.75 | 173,293 | (173,293) |
| **Total** | **43,030,497** | **(42,244,093)** | **2,385,893** | **3,172,297** | **3.21** | **317,229** | **(317,229)** |

The amounts in the tables are based on the financial assets and financial liabilities.

The currency rates as of 31 December 2017 are as follows:

| | JPY | USD |
|---|---|---|
| FX/EUR | 135.26 | 1.20 |

The total economic exposure to different currencies at 31 December 2016 was:

| | Financial assets/ (liabilities) at fair value through profit or loss | Cash and amounts due from/ (to) brokers | Other assets/ (liabilities) | Net currency exposure | In % of total net assets | +10% Movement | -10% Movement |
|---|---|---|---|---|---|---|---|
| | € | € | € | € | % | € | € |
| JPY | 25,232,273 | (28,881,648) | 2,140,046 | (1,509,329) | (1.61) | (150,933) | 150,933 |
| USD | - | 2,259,243 | - | 2,259,243 | 2.41 | 225,924 | (225,924) |
| **Total** | **25,232,273** | **(26,622,405)** | **2,140,046** | **749,914** | **0.80** | **74,991** | **(74,991)** |

The amounts in the tables are based on the financial assets and financial liabilities.

The currency rates as of 31 December 2016 are as follows:

| | JPY | USD |
|---|---|---|
| FX/EUR | 123.02 | 1.05 |

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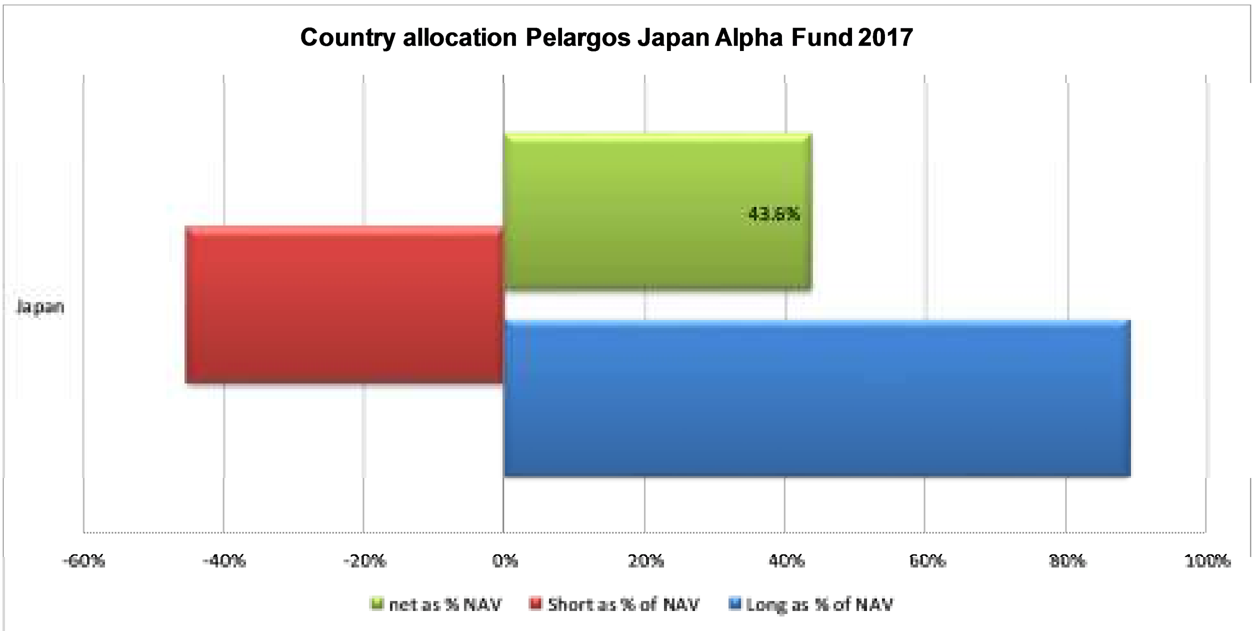
**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

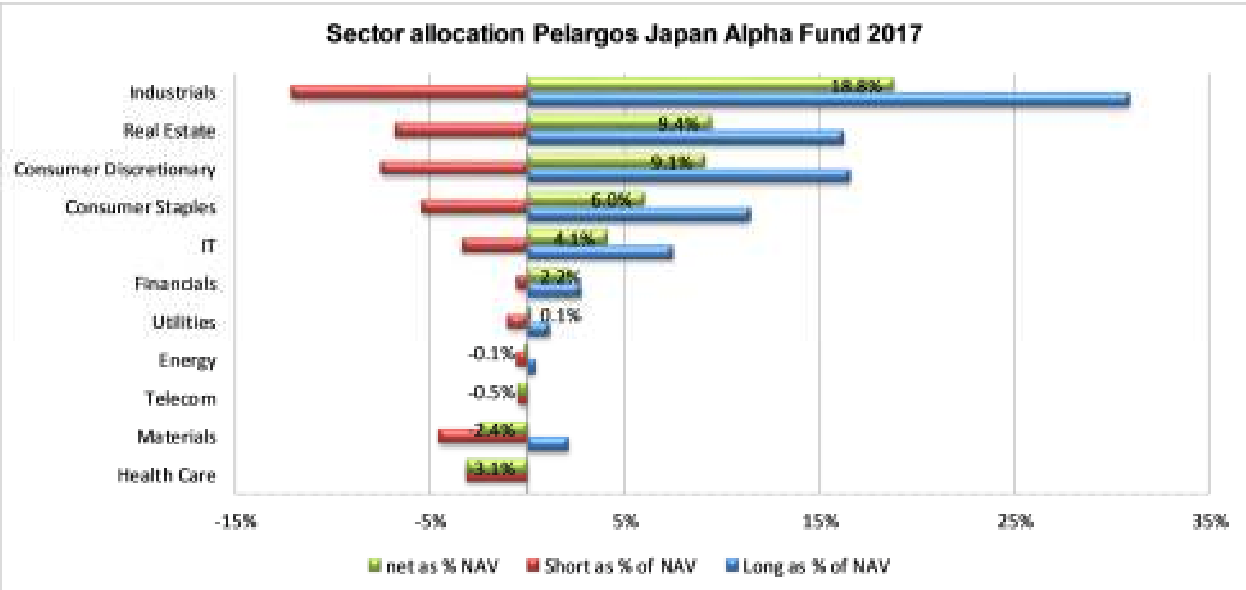
11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Concentration risk*

The country allocation (net exposure, long positions and short positions per country) as a percentage of the NAV at 31 December 2017 was as follows:




The sector allocation (net exposure, long positions and short positions per sector) as a percentage of the NAV at 31 December 2017 was as follows:

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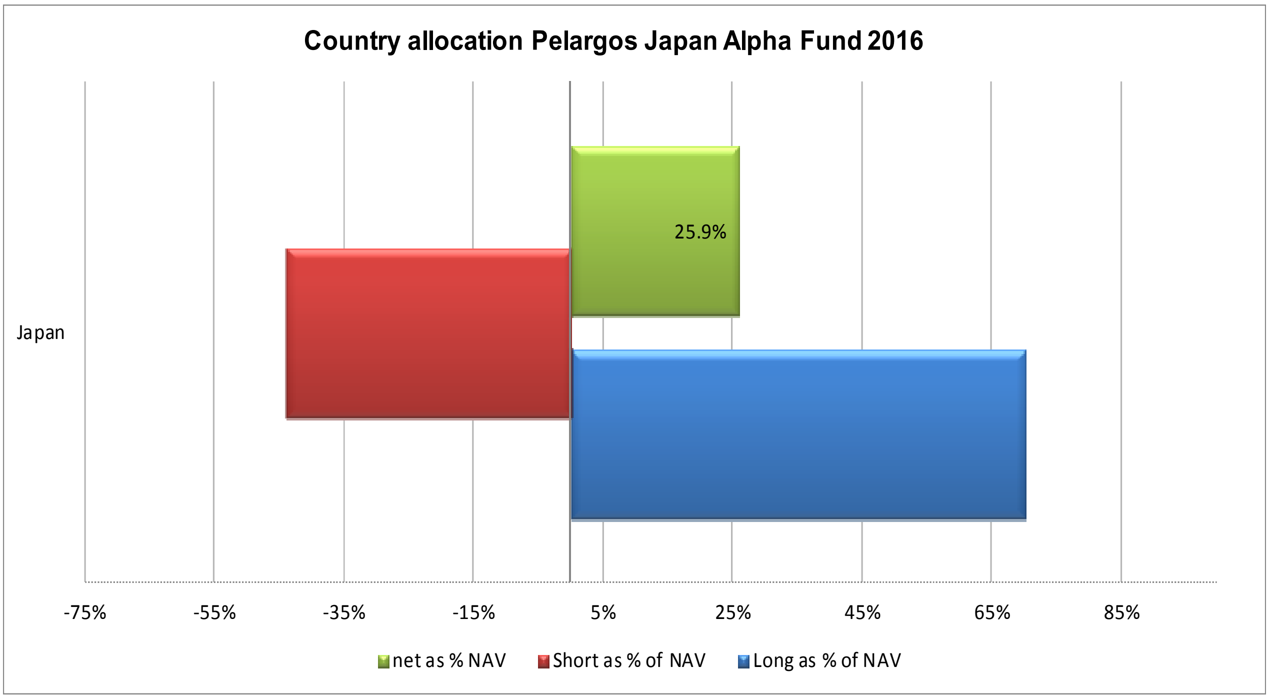
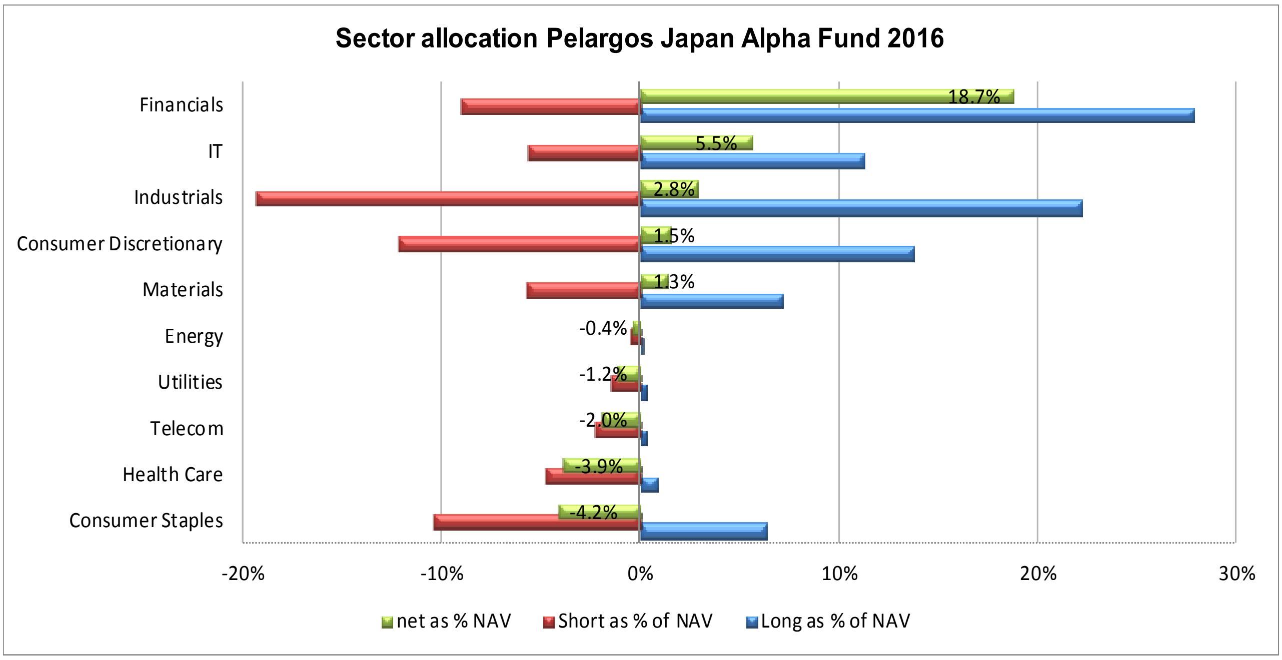
**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Concentration risk (continued)*
The country allocation (net exposure, long positions and short positions per country) as a percentage of the NAV at 31 December 2016 was as follows:




The sector allocation (net exposure, long positions and short positions per sector) as a percentage of the NAV at 31 December 2016 was as follows:

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Concentration risk (continued)*
The top long and top short exposures as a percentage of the NAV at the end of 2017 were as follows:

| TOP LONG POSITIONS 2017 | |
|---|---|
| | As % NAV |
| Toshiba Plant Systems & Services | 4.4% |
| Tokyu | 4.0% |
| Maeda Road Construction | 3.8% |
| Ichigo | 3.2% |
| Japan Tobacco | 3.0% |
| Nishimatsu Construction | 3.0% |
| Pola Orbis Holdings | 2.8% |
| Taihei Dengyo Kaisha | 2.7% |
| Heiwa Real Estate | 2.7% |
| Fuji Media Holdings | 2.7% |

| TOP SHORT POSITIONS 2017 | |
|---|---|
| | As % NAV |
| Nippon Building Fund | 2.1% |
| Toray Industries | 1.8% |
| Megmilk Snow Brand | 1.6% |
| United Urban Investment | 1.5% |
| Central Japan Railway | 1.5% |
| OSG Corp | 1.5% |
| Yamato Holdings | 1.2% |
| Yamazaki Baking | 1.1% |
| ABC-Mart | 1.0% |
| Nippon Express | 0.9% |

The top long and top short exposures as a percentage of the NAV at the end of 2016 were as follows:

| TOP LONG POSITIONS 2016 | |
|---|---|
| | As % NAV |
| Pola Orbis Holdings Inc | 4.2% |
| Sumco Corp | 3.0% |
| Relia Inc | 2.6% |
| Summitomo Metal Mining Co Ltd | 2.4% |
| Mitsui Fudosan Co Ltd | 2.3% |
| Mitsui-Soko Holdings Co Ltd | 2.3% |
| Ichigo Inc | 2.2% |
| Fuji Media Holdings Inc | 2.2% |
| Ryosan Co Ltd | 2.1% |
| Toshiba Plant Systems & Services Corp | 2.0% |

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Concentration risk (continued)*
The top long and top short exposures as a percentage of the NAV at the end of 2016 were as follows (continued):

| TOP SHORT POSITIONS 2016 | |
|---|---|
| | As % NAV |
| Kose Corp | 2.1% |
| Nissin Foods Holdings Co Ltd | 2.0% |
| Toray Industries Inc | 2.0% |
| House Foods Group Inc | 1.9% |
| Japan Tobacco Inc | 1.7% |
| Nippon Building Fund Inc | 1.6% |
| Komeda Holdings Company Ltd | 1.3% |
| Kikkoman Corp | 0.8% |
| Nitto Denko Corp | 0.6% |
| Keikyu Corp | 0.6% |

*Interest rate risk*
The majority of the Fund's financial assets are non-interest-bearing. At the Statement of Financial Position date the Fund has not invested in deposits or fixed income securities. The Fund invested in a Money Market Fund, which invests in papers in interest bearing securities. As a result, the Fund is subject to limited direct exposure to interest rate risk due to fluctuations in the prevailing levels of market interest rates. The Fund is subject to cash flow interest rate risk; however the effect is not considered material due to the short-term nature.

Fund exposure to direct interest rate risk in Euro at 31 December 2017 was:

| **Assets** | **Within 1 month** | **1 to 3 months** | **3 to 12 months** | **1 to 5 years** | **No stated maturity** | **Total** |
|---|---|---|---|---|---|---|
| | **€** | **€** | **€** | **€** | **€** | **€** |
| Financial assets at fair value through profit or loss | - | - | - | - | 87,812,269 | 87,812,269 |
| Amounts due from brokers | 2,372,865 | - | - | - | - | 2,372,865 |
| Margin accounts | 32,326,878 | - | - | - | - | 32,326,878 |
| Cash and cash equivalents | 21,739,446 | - | - | - | - | 21,739,446 |
| **Total** | **56,439,189** | **-** | **-** | **-** | **87,812,269** | **144,251,458** |

| **Liabilities** | **Within 1 month** | **1 to 3 months** | **3 to 12 months** | **1 to 5 years** | **No stated maturity** | **Total** |
|---|---|---|---|---|---|---|
| | **€** | **€** | **€** | **€** | **€** | **€** |
| Financial liabilities at fair value through profit or loss | 62,952 | - | - | - | 44,718,820 | 44,781,772 |
| Amounts due to brokers | 90,722 | - | - | - | - | 90,722 |
| **Total** | **153,674** | - | - | - | **44,718,820** | **44,872,494** |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Interest rate risk (continued)*
Fund exposure to direct interest rate risk in Euro at 31 December 2016 was:

| **Assets** | **Within 1 month** | **1 to 3 months** | **3 to 12 months** | **1 to 5 years** | **No stated maturity** | **Total** |
|---|---|---|---|---|---|---|
| | **€** | **€** | **€** | **€** | **€** | **€** |
| Financial assets at fair value through profit or loss | 23,687 | - | - | - | 65,486,790 | 65,510,477 |
| Amounts due from brokers | 2,539,423 | - | - | - | - | 2,539,423 |
| Margin accounts | 24,494,300 | - | - | - | - | 24,494,300 |
| Cash and cash equivalents | 42,186,173 | - | - | - | - | 42,186,173 |
| Total | **69,243,583** | **-** | **-** | **-** | **65,486,790** | **134,730,373** |

| **Liabilities** | **Within 1 month** | **1 to 3 months** | **3 to 12 months** | **1 to 5 years** | **No stated maturity** | **Total** |
|---|---|---|---|---|---|---|
| | **€** | **€** | **€** | **€** | **€** | **€** |
| Financial liabilities at fair value through profit or loss | - | - | - | - | 40,278,204 | 40,278,204 |
| Amounts due to brokers | 446,303 | - | - | - | - | 446,303 |
| **Total** | **446,303** | **-** | **-** | **-** | **40,278,204** | **40,724,507** |

*Credit risk*
Credit risk refers to the potential loss arising if a counterparty is unable to fulfill its financial obligations when due. The Fund is exposed to credit risk in terms of cash deposited at banks or Prime Brokers, (rehypothecated) securities held at Prime Brokers and derivatives with other financial institutions as counterparties.

The Fund held a Money Market Fund, the Goldman Sachs Euro Liquid Reserves Fund.

The Fund's exposure in relation to financial instruments and other debtors is as follows at year-end:

| | **2017** | **2016** |
|---|---|---|
| | **€** | **€** |
| Derivatives | - | 23,687 |
| Amounts due from brokers | 2,372,865 | 2,539,423 |
| Dividends & Interest receivable | 258,666 | 170,399 |
| Margin accounts | 32,326,878 | 24,494,300 |
| Cash and cash equivalents | 21,739,446 | 42,186,173 |
| **Total** | **56,697,855** | **69,413,982** |

In 2017 and 2016, OTC derivative transactions were executed with the Fund's Prime Brokers Goldman Sachs International, UBS AG and Nomura International plc. The Fund's derivative contracts held were equities.

To mitigate credit risk, three Prime Brokers have been legally appointed, allowing a transfer of securities and cash. Further, securities and cash are only held at, and derivatives are only executed with (investment grade) rated counterparties. Long-term ratings for Goldman Sachs International at 31 December 2017 were A3 (2016: A3 (Moody's)) and BBB+ (2016: BBB+ (S&P)). Long-term ratings for UBS AG at year-end were Aa3 (2016: Aa3) at Moody's and A+ (2016: A+) at S&P. Long-term ratings for Nomura International plc at year-end were AA- (2016: AA-) at Japan Credit Rating Agency and A- (2016: A-) at S&P.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Credit risk (continued)*
The Prime Brokers may acquire legal title to the Fund's assets up to an amount of more than 100% (max 140%) of the value of the (i) liabilities or (ii) net indebtedness, as the case may be, of the Fund towards the relevant Prime Brokers (rehypothecation). The Fund will have a right to the redelivery of equivalent assets from the Prime Brokers. In the event of an insolvency of either party, the obligation to redeliver will be given a cash value and will form part of a set off calculation against the amount the Fund owes the Prime Brokers.

To the extent that the Prime Brokers have rehypothecated assets in excess of the amount that the Fund owes, the Fund ranks as a general creditor for the excess following the operation of set-off, with the risk that such excess may not be reclaimed. The Fund continuously monitors the creditworthiness of its Prime Brokers and has appointed multiple Prime Brokers.

The Fund has entered into master netting agreements with its Prime Brokers. Under these agreements all assets and liabilities with the Prime Broker can be offset with each other.

To enable to short securities, the Fund borrows securities. At 31 December 2017, the Fund borrowed securities for an amount of €44,721,145 (31 December 2016: €39,157,770).

The maximum exposure in relation to financial instruments and other debtors is the carrying value of the financial assets.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Credit risk (continued)*
The financial assets and liabilities which are subject to offsetting as of 31 December 2017 and as of 31 December 2016 are as follows:

**Financial assets subject to offsetting, enforceable master netting agreements and similar agreements**

| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set-off in the Statement of Financial Position | Net amounts of financial assets presented in the Statement of Financial Position | Related amounts not set-off in the Statement of Financial Position: Financial instrument | Net amount |
|---|---|---|---|---|---|
| **2017** | € | € | € | € | € |
| Investments pledged* GS | 16,538,495 | - | 16,538,495 | - | 16,538,495 |
| Investments pledged UBS | 823,902 | - | 823,902 | - | 823,902 |
| **2016** | € | € | € | € | € |
| Derivative assets GS | 23,687 | - | 23,687 | - | 23,687 |

* rehypothecated equity long

**Financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements**

| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set-off in the Statement of Financial Position | Net amounts of financial liabilities presented in the Statement of Financial Position | Related amounts not set-off in the Statement of Financial Position: Financial instrument | Net amount |
|---|---|---|---|---|---|
| **2017** | € | € | € | € | € |
| Derivative liabilities GS | - | - | - | - | - |
| Derivative liabilities Nomura | - | - | - | - | - |
| **2016** | € | € | € | € | € |
| Derivative liabilities GS | - | - | - | - | - |
| Derivative liabilities Nomura | - | - | - | - | - |

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Liquidity risk*
Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities.

The Fund is exposed to cash redemptions of redeemable units of participation for a monthly valuation day, with 15 business day's previous notice.

The Fund invests the majority of its assets in investments that are listed and traded in active markets; all listed on major Japanese stock exchanges. The liquidity of all securities will be continuously monitored by the Manager, who aims to be able to exit 50% of the assets in the Fund with one week and 95% in one month time.

The Fund may invest in derivative contracts traded over the counter, which are not traded on a regulated exchange and may be illiquid. As a result, the Fund may not be able to liquidate quickly its investments in these instruments at their fair value to meet its liquidity requirements. If OTC derivative contracts are used, the counterparties will be rigorously selected and monitored.

The liquidity profile of the Fund's financial liabilities based on undiscounted contractual maturities is illustrated as follows:

| 31 December 2017 | Within 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| | € | € | € | € | € | € |
| Financial assets at fair value through profit or loss | - | - | - | - | 87,812,269 | 87,812,269 |
| Other receivables | 258,666 | - | - | - | - | 258,666 |
| Amounts due from brokers | 2,372,865 | - | - | - | - | 2,372,865 |
| Margin accounts | 32,326,878 | - | - | - | - | 32,326,878 |
| Cash and cash equivalents | 21,739,446 | - | - | - | - | 21,739,446 |
| **Total** | **56,697,855** | **-** | **-** | **-** | **87,812,269** | **144,510,124** |
| **Liabilities** | | | | | | |
| Financial liabilities at fair value through profit or loss | - | - | - | - | 44,718,820 | 44,718,820 |
| Derivatives | 62,952 | - | - | - | - | 62,952 |
| Other liabilities and accrued expenses | 878,200 | - | - | - | - | 878,200 |
| Amounts due to brokers | 90,722 | - | - | - | - | 90,722 |
| **Total** | **1,031,874** | **-** | **-** | **-** | **44,718,820** | **45,750,694** |
| Redeemable units of participation | - | 98,759,430 | - | - | - | 98,759,430 |
| **Total** | **-** | **98,759,430** | **-** | **-** | **-** | **98,759,430** |
| **Liquidity gap** | **55,665,981** | **(98,759,430)** | **-** | **-** | **43,093,449** | **-** |

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Liquidity risk (continued)*
The liquidity profile of the Fund's financial liabilities based on undiscounted contractual maturities is illustrated as follows:

| **31 December 2016** | **Within 1 month** | **1 to 3 months** | **3 to 12 months** | **1 to 5 years** | **No stated maturity** | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| | **€** | **€** | **€** | **€** | **€** | **€** |
| Financial assets at fair value through profit or loss | - | - | - | - | 65,486,790 | 65,486,790 |
| Derivatives | 23,687 | - | - | - | - | 23,687 |
| Other receivables | 170,399 | - | - | - | - | 170,399 |
| Amounts due from brokers | 2,539,423 | - | - | - | - | 2,539,423 |
| Margin accounts | 24,494,300 | - | - | - | - | 24,494,300 |
| Cash and cash equivalents | 42,186,173 | - | - | - | - | 42,186,173 |
| **Total** | **69,413,982** | **-** | **-** | **-** | **65,486,790** | **134,900,772** |
| **Liabilities** | | | | | | |
| Financial liabilities at fair value through profit or loss | - | - | - | - | 40,278,204 | 40,278,204 |
| Other liabilities and accrued expenses | 591,478 | - | - | - | - | 591,478 |
| Amounts due to brokers | 446,303 | - | - | - | - | 446,303 |
| **Total** | **1,037,781** | **-** | **-** | **-** | **40,278,204** | **41,315,985** |
| Redeemable units of participation | - | 93,584,787 | - | - | - | 93,584,787 |
| **Total** | **-** | **93,584,787** | **-** | **-** | **-** | **93,584,787** |
| **Liquidity gap** | **68,376,201** | **(93,584,787)** | **-** | **-** | **25,208,586** | **-** |

There is no contractual maturity for all equity investments held; those investments are classified under no stated maturity. The below liquidity analysis provides more details related to the liquidity of those investments.

*Liquidity analysis*
The liquidity of the securities is continuously monitored as liquidity risk is a risk factor that we believe is important to manage. Closing illiquid positions can be costly as prices can move significantly in a few days, especially if headline driven traders are involved. To mitigate this risk the Manager expects to exit 50% of the assets in the Fund within one week and 95% within one month. The Manager currently maintains a level within such limits.

The following tables relate all equity and CFD positions of the Fund to the average daily trading volumes (ADV). The average and maximum ADVs are based on the average daily trading volume over the last 3 months of 2017. The average long position of the Fund was 69% of the ADV. Liquidity of the Fund remains high as can be seen from below table: within 4 days, 70% of the long book can be closed. 93% of the short book can be closed within 1 day. The max ADV was the value of the most illiquid position as a percentage of 3-months average ADV.

Those tables stated the percentage of the assets held in five different classes of market liquidity. For example: 35% of the Fund's long positions can be sold within a day, under the assumption that we trade maximum 25% of daily volume.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

*Liquidity risk (continued)*

**Liquidity profile of the Long portfolio**

| **Percentage of 3-months ADV** | **Average ADV** | **Max ADV** | **Percentage of Portfolio in% of the ADV** 0%-25% | 25%-50% | 50%-100% | 100%-200% | >200% |
|---|---|---|---|---|---|---|---|
| 31 December 2017 | 69% | 732% | 35% | 25% | 11% | 26% | 4% |
| 31 December 2016 | 50% | 1647% | 43% | 20% | 13% | 13% | 12% |

**Liquidity profile of the Short portfolio**

| **Percentage of 3-months ADV** | **Average ADV** | **Max ADV** | **Percentage of Portfolio in% of the ADV** 0%-25% | 25%-50% | 50%-100% | 100%-200% | >200% |
|---|---|---|---|---|---|---|---|
| 31 December 2017 | 6% | 28% | 93% | 7% | - | - | - |
| 31 December 2016 | 3% | 35% | 92% | 8% | - | - | - |

12. DERIVATIVE CONTRACTS

Typically, derivative contracts serve as components of the Fund’s investment strategies and are utilised primarily to structure and hedge investments to enhance performance and reduce risk to the Fund. The derivative contracts that the Fund held or issued were equity contracts for difference, futures and options.

The Fund records its derivative activities on a mark-to-market basis.

The Fund purchases or sells put and call options through listed exchanges and the OTC markets. Options purchased by the Fund provide the Fund with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Forward foreign currency contracts are valued by reference to the forward price at which a new forward contract of the same size and maturity could be undertaken at the valuation date. Forward foreign currency contracts entered into by the Fund represent a firm commitment to buy or sell an underlying asset, or currency at a specified value and point in time based upon an agreed or contracted quantity. The realised/unrealised gain or loss is equal to the difference between the value of the contract at the onset and the value of the contract at settlement date/year-end date and are included in the Statement of Comprehensive Income.

Unrealised gains or losses are valued in accordance with the accounting policy stated in Note 2 and the resulting movement in the unrealised gain or loss is recorded in the Statement of Comprehensive Income.

As at 31 December 2017 and 31 December 2016, the following derivative contracts were included in the Fund’s Statement of Financial Position at fair value through profit or loss:

| | **Fair value assets 31 December 2017 €** | **Fair value liabilities 31 December 2017 €** |
|---|---|---|
| Forward foreign currency contracts | - | (62,952) |
| **Total derivative contracts** | **-** | **(62,952)** |

| | **Fair value assets 31 December 2016 €** | **Fair value liabilities 31 December 2016 €** |
|---|---|---|
| Options | 23,687 | - |
| **Total derivative contracts** | **23,687** | **-** |

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

12. DERIVATIVE CONTRACTS (continued)

The table below details the total derivatives exposure at 31 December 2017 and 31 December 2016. Gross exposure is the sum of absolute market value of all long and short positions. Net exposure is the balance of market value of all long and short positions. At 31 December 2017 the Fund held no equity index option (31 December 2016: 1).

The leverage of the Fund is a ratio between the total gross exposure and the net asset value of the Fund. The maximum leverage the Fund may have is 250%. At 31 December 2017 the leverage is 134.2% (31 December 2016: 114%).

| 2017 | Net exposure | Gross exposure | Gross as % NAV |
|---|---|---|---|
| | € | € | |
| Equities | 43,095,690 | 132,537,981 | 134.2% |
| ***Total exposure*** | **43,095,690** | **132,537,981** | **-** |
| **Total as % of NAV** | **43.6%** | **134.2%** | **134.2%** |

| 2016 | Net exposure | Gross exposure | Gross as % NAV |
|---|---|---|---|
| | € | € | |
| Equities | 25,209,489 | 105,768,782 | 113.0% |
| Options | (973,957) | 973,957 | 1.0% |
| ***Total exposure*** | **24,235,532** | **106,742,739** | **114.0%** |
| **Total as % of NAV** | **25.9%** | **114.0%** | **114.0%** |

13. REDEEMABLE UNITS OF PARTICIPATION

Since inception of the Fund Class A, Class B and Class C units of participation were issued, Class A, B and C are denominated in Euro. The (initial) investment required for a participant in Class A is Euro 10,000. Subsequent subscriptions and redemptions have a minimum size of Euro 1,000.

The minimum (initial) investment in Class A and B for the 'seeding' investor, employees and employees of the directors is Euro 1,000 and for other Participants Euro 10,000. Subscriptions and redemptions have a minimum size of Euro 1,000.

On 11 May 2017 the Manager decided to introduce a new Class C units of participation. The Class C units of participation may be issued in two subclasses denominated in US Dollars and in Euro.

The minimum (initial) investment in Class C for the 'seeding' investor, employees and employees of the directors is Euro 1,000 and USD 1,000 and for other Participants Euro 100,000 and USD 100,000. Subscriptions and redemptions have a minimum size of Euro and USD 1,000.

Each participant is entitled to cast one vote for each unit of participation. One or more Participants who jointly hold at least 10% of the total number of participations can request the Manager to hold a meeting and can add topics to the agenda.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

13. REDEEMABLE UNITS OF PARTICIPATION (continued)

Transactions in units of participation for Class A, Class B and Class C for the year ended 31 December 2017 and 31 December 2016 were as follows:

| | Number of units of participation 2017 | Number of units of participation 2016 |
|---|---|---|
| **Class A (EUR)** | | |
| Units of participation balance at the beginning of the year | 236 | 236 |
| **Units of participation at the end of the year** | **236** | **236** |

| | Number of units of participation 2017 | Number of units of participation 2016 |
|---|---|---|
| **Class B (EUR)** | | |
| Units of participation balance at the beginning of the year | 59,945 | 59,247 |
| Issue of redeemable units of participation | 37 | 2,145 |
| Redemption of redeemable units of participation | (3,801) | (1,439) |
| Issue/Redemption related to equalisation credit/(deficit) | (3) | (8) |
| **Units of participation at the end of the year** | **56,178** | **59,945** |

| | Number of units of participation 2017 | Number of units of participation 2016 |
|---|---|---|
| **Class C (USD)** | | |
| Units of participation balance at the beginning of the year | - | - |
| Issue of redeemable units of participation | 9,416 | - |
| **Units of participation at the end of the year** | **9,416** | **-** |

*Capital management*
As a result of the ability to issue and redeem shares, the capital of the Fund can vary depending on the demand for redemptions and subscriptions to the Fund. The Fund is not subject to externally imposed capital requirements and has no legal restrictions on the issue or redemption of redeemable shares beyond those included in the Fund's constitution.

The Fund's objectives for managing capital are:

1. To achieve long-term capital appreciation;
The Fund aims for returns which have a low correlation with the returns of the market index. To achieve this objective the Fund uses investment instruments and applies an investment and risk management policy as described in the prospectus.

2. To maintain sufficient liquidity to meet redemption requests as they arise.

Note 11 'Risk associated with financial instruments' explains equity risk, currency risk, interest rate risk, credit risk and liquidity risk in more detail

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

14. RELATED PARTY TRANSACTIONS

Employees of directors and employees of Pelargos Capital B.V. held jointly 264.51 (31 December 2016: 240.63) units of participation Class B in the Fund. Pelargos Capital B.V. held 136.47 (31 December: 2016: 136.47) units of participation Class A Euro.

Two investment funds managed by Aegon Investment Management B.V. (AIM B.V.) held 55,868.61 (31 December 2016: 59,672.78) units of participation Class B and 99.8 (31 December 2016: 99.80) units of participation Class A.

AIM B.V. is a 100% subsidiary of Aegon Asset Management Holding B.V., which is a 100% subsidiary of Aegon N.V. Aegon Asset Management Holding B.V. holds 73.34% (31 December 2016: 73.34%) of the shares in Pelargos Capital B.V.

15. PERSONAL INTERESTS OF DIRECTORS

In accordance with article 122 paragraph 2 Bgfo the Fund is required to list the total holdings in securities by the (employees of) directors in investments, which are also held by the Fund as of 31 December 2017.

As of 31 December 2017 and 31 December 2016 there are no personal interests of the employees of directors in investments, which were also held by the Fund.

As of 31 December 2017 and 31 December 2016 the personal interests of employees of directors and a non-executive director of the Fund are as follows:

| | Market Value 31 December 2017 | Market Value 31 December 2016 |
|---|---|---|
| | € | € |
| Pelargos Japan Alpha Fund | 424,773 | 374,326 |
| | **424,773** | **374,326** |

16. DIVIDEND AND ALLOCATION OF RESULT

During the year ended 31 December 2017 and 31 December 2016, the Fund did not pay dividends. The result is included in the net assets attributable to holders of redeemable units of participation.

17. INVESTOR MONEY REGULATIONS

In response to the Central Bank of Ireland publishing the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) Investor Money Regulations 2015 for Fund Service Providers (the “Investor Money Regulations” or “IMR”) in March 2015 (effective from 1 July 2016), the Manager undertook, together with BNY Mellon Fund Services (Ireland) Designated Activity Company, a review of the way in which subscription, distribution and redemption monies are channelled to and from the Fund. As a result of this review, subscription and redemption monies are (effective from 1 July 2016), channelled through a cash collection account in the name of the Fund. Pending issue of the units and / or payment of subscription proceeds to an account in the name of the Fund, and pending payment of redemption proceeds or distributions, the relevant investor will be an unsecured creditor of the Fund in respect of amounts paid by or due to it. At 31 December 2017, the value of such subscriptions amounted to €Nil and is included within cash and cash equivalents (31 December 2016: €20,000).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

18. EU SECURITIES FINANCINING TRANSACTIONS REGULATION 2016 ("SFTR")

As at 31 December 2017 and 31 December 2016, additional SFTR disclosures are required for repurchase/reverse repurchase transactions, total return swaps (including contracts for difference), securities borrowing, securities lending and margin lending transactions. For the year ended 31 December 2017 (31 December 2016: Nil), the Fund has not entered into any stock lending transactions and repurchase/reverse repurchase transactions.

The following table details the Fund's exposure (calculated on a net basis) to repurchase/reverse repurchase transactions, total return swaps (including contracts for difference), securities borrowing and margin lending transactions as at 31 December 2017 and 31 December 2016.

| **31 December 2017** | **Counterparty country of incorporation** | **Reverse repurchase transactions** | **Total return swap (including CFD)*** | **Securities borrowing** | **Margin lending transactions** |
|---|---|---|---|---|---|
| Counterparty | | € | € | € | € |
| Goldman Sachs | United Kingdom | - | - | 44,721,145 | 30,333,551 |
| UBS | United Kingdom | - | - | - | 1,993,327 |
| Total as % of the NAV | | - | | 45.3% | 32.7% |
| **31 December 2016** | | | | | |
| Counterparty | | € | € | € | € |
| Goldman Sachs | United Kingdom | - | - | 39,157,770 | 23,934,160 |
| UBS | United Kingdom | - | - | - | 560,140 |
| Total as % of the NAV | | - | - | 42% | 26% |

**the value of total TRS's is based on the aggregate gross notional value of all open positions.*

The following table provides an analysis of the maturity tenor of reverse repurchase transactions, total return swaps (including contracts for difference), securities borrowing and margin lending transactions outstanding as at 31 December 2017:

| **31 December 2017** | **Reverse repurchase transactions** | **Total return swap (including CFD)** | **Securities borrowing** | **Margin lending transactions** |
|---|---|---|---|---|
| **Maturity tenor** | € | € | € | € |
| 1 day | - | - | - | - |
| 2 to 7 days | - | - | - | - |
| 8 to 30 days | - | - | - | - |
| 31 to 90 days | - | - | - | - |
| 91 to 365 days | - | - | - | - |
| more than 365 days | - | - | - | - |
| open transactions | - | - | 44,721,145 | 32,326,878 |

The above maturity tenor analysis has been based on the respective transaction contractual maturity date. Open transactions are those transactions that are recallable or terminable on a daily basis and include securities borrowing, margin lending transactions and contracts for difference.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

18. EU SECURITIES FINANCINING TRANSACTIONS REGULATION 2016 (“SFTR”) (continued)

The following table provides an analysis of the maturity tenor of reverse repurchase transactions, total return swaps (including contracts for difference), securities borrowing and margin lending transactions outstanding as at 31 December 2016:

| 31 December 2016 | Reverse repurchase transactions | Total return swap (including CFD) | Securities borrowing | Margin lending transactions |
|---|---|---|---|---|
| **Maturity tenor** | € | € | € | € |
| 1 day | - | - | - | - |
| 2 to 7 days | - | - | - | - |
| 8 to 30 days | - | - | - | - |
| 31 to 90 days | - | - | - | - |
| 91 to 365 days | - | - | - | - |
| more than 365 days | - | - | - | - |
| open transactions | - | - | 39,157,770 | 24,494,300 |

The above maturity tenor analysis has been based on the respective transaction contractual maturity date. Open transactions are those transactions that are recallable or terminable on a daily basis and include securities borrowing, margin lending transactions and contracts for difference.

During the ended 31 December 2017 and period ended 31 December 2016 the Fund did not have cash and non-cash collateral received or posted by way of a title transfer collateral arrangement in respect of reverse repurchase transactions and derivative transactions.

**Security borrowing, total return swaps, margin lending transactions and re-use of Fund’s assets**

Securities borrowing, total return swaps and margin lending transactions are normally governed by a prime brokerage agreement with the Prime Broker(s). Under these arrangements, the Fund is required to post margin in respect of all its obligations to the Prime Broker(s) under that agreement. Each Prime Broker has a security interest over all non-cash assets held with it in the pooled custody accounts. Any of these assets can be used by the Prime Broker to cover their margin requirement for the Fund. Each Prime Broker also has the right to re-hypothecate a certain amount of the Fund’s assets to use for their own proprietary purposes. The amount that each Prime Broker is permitted to re-hypothecate will be set out in its prime brokerage agreement and further details are disclosed in the Fund’s Prospectus. The maximum percentage of rehypothecation is 140%.

All returns and costs from stock borrowing and total return swap transactions will accrue to the Fund and are not subject to any returns or cost sharing arrangements with the Fund’s Manager.

There is no profit sharing arrangement in place with the Fund to share any return earned by the Prime Broker(s) though their re-use of the Fund’s assets.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**
**For the year ended 31 December 2017**

18. EU SECURITIES FINANCINING TRANSACTIONS REGULATION 2016 ("SFTR") (continued)

**Security borrowing, total return swaps, margin lending transactions and re-use of Fund's assets (continued)**

The following table details the value of the re-use of Fund's assets, analysed per counterparty and currency as at 31 December 2017 and 31 December 2016.

| **Re-use of Fund's asset** | | | **Rehypothecation %** |
|---|---|---|---|
| **Counterparty** | **Country** | **Currency** | **31 December 2017** |
| Goldman Sachs | United Kingdom | € | 37% |
| UBS | United Kingdom | € | 125% |
| **Re-use of Fund's asset** | | | **Rehypothecation %** |
| **Counterparty** | **Country** | **Currency** | **31 December 2016** |
| Goldman Sachs | United Kingdom | € | - |
| Nomura | United Kingdom | € | - |
| UBS | United Kingdom | € | - |

All returns and costs from margin lending transactions will accrue to the Fund and are not subject to any returns or cost sharing arrangements with the Fund's Manager.

**Repurchase/ reverse repurchase transactions**

The Fund did not have a Global Master Repurchase Agreements ("GMRA") or Master Repurchase Agreements ("MRA") with its Prime Broker. There were no reverse repurchase transactions in 2017 and 2016. There was no return sharing agreements with the Fund's Manager.

19. SUBSEQUENT EVENTS

There are no subsequent events impacting the Fund subsequent to 31 December 2017 up to the date of approval of these financial statements.

20. APPROVAL OF THE FINANCIAL STATEMENTS

Approved on behalf of the Manager:

__________________________
Director Pelargos Capital B.V.

Date: 26 April 2018

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**OTHER NOTES**
**For the year ended 31 December 2017**

1. VOTING POLICY

The Manager adheres to the Japan Stewardship Code (the Code) as of September 2016. The Code, published in 2014, sets out best practice principles for responsible institutional investors. The Manager has a voting policy to support the Code and will in the best interest of the Participants engage with Japan listed companies in which the Fund invests.

2. APPROVAL OF THE FINANCIAL STATEMENTS

The Manager approved the financial statements on 26 April 2018.

# Independent auditor's report

To: the general meeting of unit holders

## Report on the financial statements 2017

### Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Pelargos Japan Alpha Fund as at 31 December 2017, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

### What we have audited

We have audited the accompanying financial statements 2017 of Pelargos Japan Alpha Fund, The Hague ('the Fund').

The financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the following statements for 2017: the statements of comprehensive income, cash flows and changes in net assets attributable to holders of redeemable units of participation; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

### The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*QNHQDDR45M5P-422389993-66*

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### *Independence*
We are independent of Pelargos Japan Alpha Fund in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – code of ethics for professional accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – code of ethics for professional accountants, a regulation with respect to rules of professional conduct).

## *Report on the other information included in the annual report*
In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- the Fund information;
- the Fund profile;
- the summary of financial information;
- the manager's report; and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The investment manager is responsible for the preparation of the other information, including the manager's report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

## *Responsibilities for the financial statements and the audit*
### *Responsibilities of the investment manager*
The investment manager is responsible for:
- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the investment manager determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the investment manager is responsible for assessing the Fund's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the investment manager should prepare the financial statements using the going-concern basis of accounting unless the investment manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so. The investment manager should disclose events and circumstances that may cast significant doubt on the Fund's ability to continue as a going concern in the financial statements.

## *Our responsibilities for the audit of the financial statements*

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 26 April 2018
PricewaterhouseCoopers Accountants N.V.

Original has been signed by D.J.P. van Veen RA

## *Appendix to our auditor's report on the financial statements 2017 of Pelargos Japan Alpha Fund*

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

### *The auditor's responsibilities for the audit of the financial statements*

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things, of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the investment manager.
- Concluding on the appropriateness of the investment manager's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the investment manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.