



PELARGOS CAPITAL B.V.

Financial Information 2019

The Hague
12 June 2020

Company information

Statutory directors

Orange Dragon Company B.V.
Pieter van Putten
Michael Kretschmer

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Company profile

Pelargos Capital B.V. (Hereafter: Pelargos) is an investment boutique with an institutional type infrastructure that runs fundamental value strategies focused on alpha generation in Asian and Japanese equity markets. Pelargos was founded in March 2008 with Aegon Asset Management as cornerstone investor. In June 2008 and July 2008 two Dutch domiciled funds, the Pelargos Asia Alpha Fund respectively the Pelargos Japan Alpha Fund were launched. Pelargos Japan Long Short Value Fund was closed per end June 2019 and Pelargos Asia Alpha Fund was closed per end November 2019, after which Pelargos became a dedicated Japan equity manager. The remaining fund strives for capital growth by taking long and short exposures in securities related to Japanese companies. At the end of 2019, the Management Committee at Pelargos consists of Richard Dingemans (CEO), Pieter van Putten (CFO/COO) and Michael Kretschmer (CIO).

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

Pelargos was established on March 4th in 2008. The statutory objectives of the company are:

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

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

Summary of 2019

Introduction

The year 2019 saw mixed results for Pelargos' fundamental investment strategies. Where Pelargos Japan Alpha Fund generated a return of +12.8% for the year, Pelargos Asia Alpha Fund lost 10.9% during the period Jan-Nov. Assets under management decreased from € 218 million to € 132 million on the back of the closure of Pelargos Japan Long Short Value Fund and Pelargos Asia Alpha Fund, and inflows in Pelargos Japan Alpha Fund.

Business development

Pelargos was established in 2008 with the strategic backing and long-term committed cornerstone investor Aegon. Since its start Pelargos has built an institutional infrastructure. It supports our fundamental research and risk management framework. It also enables effective reporting and performance attribution analysis to provide transparency for our clients. Pelargos is a member of the Alternative Investment Management Association and our key service providers are best in class partners.

The focus of our teams is on generating performance and raising capital. The main driver of profitability comes from increasing revenues through acquisition of new customers. To support this process, we constantly search for partners with proven distribution capabilities

Organisation

In 2019, Pelargos closed Pelargos Japan Long Short Value Fund. The fund did not generate the investor interest which had been originally expected.

Towards the end of 2019, Pelargos closed its Asian equity fund – Pelargos Asia Alpha Fund. After a redemption by a large shareholder the fund's future was no longer viable. Part of the redemption proceeds were reinvested in Pelargos Japan Alpha Fund.

In order to align the corporate cost level, Pelargos introduced a program of cost reduction, which resulted among other things in a reduction of headcount to 6.8 FTE as per Jan 1, 2020. A wide range of other expenses were also reviewed, and where possible adjusted. The benefits of these cost savings will be particularly noticeable in the financial statements of 2020.

During the last months of 2019, Pelargos decided to introduce a new operational trading platform to achieve higher efficiency, and was working on the launch of a Japan long only equity fund. Both projects went live in early 2020.

The outbreak of Covid-19 in the spring of 2020 has had relatively little impact on the operations of Pelargos Capital. The BCP plan was activated and all staff started working from home with no disruptions in daily work procedures.

Financials

In 2019 Pelargos realized a loss of € 110,578.

Although still a loss, this result was an improvement over the 2018 net result, and reflects the changes in the organization made during 2018 and 2019, namely the reduction in expenses to bring them in line with revenues. During the second half of 2019, financial results were around breakeven on an ongoing basis.

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

The Hague, 12 June 2020

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

P. Van Putten, CFA

M. Kretschmer

Balance sheet as at 31 December 2019

(Before profit distribution)

ASSETS	31 December 2019	31 December 2018
	€	€
Fixed assets		
Property and equipment	3,451	3,943
Hardware	5,948	8,817
	9,399	12,760
Current assets		
Accounts receivable	196,537	194,310
Corporate income tax	-	-
Current account related parties	287,314	171,820
Other current assets	16,826	34,242
	500,677	400,372
Units of participations in Funds	184,042	385,610
	184,042	385,610
Bank	2,497,591	2,531,723
	2,497,591	2,531,723
Total assets	<u>3,191,709</u>	<u>3,330,465</u>

LIABILITIES	31 December 2019	31 December 2018
	€	€
Equity		
Share capital	18,000	18,000
Ordinary share premiums	482,000	482,000
Other reserve	2,003,462	2,209,556
Net Result	-110,578	-206,094
	2,392,884	2,503,462
Long term liability	84,961	76,119
	84,961	76,119
Current		
Tax	140,395	240,792
Other current liabilities	573,469	510,092
	713,864	750,884
Total liabilities	<u>3,191,709</u>	<u>3,330,465</u>

Profit and loss account 1 January - 31 December 2019

P&L	2019 €	2018 €
Performance fee	87,213	-
Management fee	2,096,899	2,209,919
Revenues from fees	2,184,112	2,209,919
Other revenues	-	-
Total revenues	2,184,112	2,209,919
Total costs	-2,369,986	-2,366,115
Investment results	10,236	-49,140
Other income	68,529	676
Interest	-3,469	-1,434
Result before tax	-110,578	-206,094
Corporate income tax	-	-
Result after tax	-110,578	-206,094

Cash flow statement 1 January - 31 December 2019

CASHFLOW STATEMENT	2019 €	2018 €
Earnings from operations	-185,874	-156,196
Adjustments for		
Depreciation	3,361	8,244
Change in receivables	-100,305	174,008
Change in liabilities	-28,178	194,568
Due corporate tax	-	0
	-125,122	376,820
Cash flow from operations	-310,996	220,624
Sale from units of participations in Funds	211,804	-
Investments in fixed assets	-	-
Cash flow from investments	211,804	-
Interest	-3,469	-1,434
Dividends paid	-	-
Cash flow from financing	-3,469	-1,434
Other income	68,529	676
Cash flow from other	68,529	676
Change in cash	-34,132	219,866

Summary Notes

General

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

Accounting policies

- Fixed assets are valued at historical cost including directly attributable costs, less straight-line depreciation based on the expected future life and impairments.
- Receivables are recognised initially at fair value and subsequently measured at amortised cost.
- Pelargos is investor in the Pelargos Japan Alpha Fund, the Pelargos Asia Alpha Fund and the Pelargos Japan Long Short Value Fund. The units of participation held are valued against fair value, i.e. the Net Asset Value per participation of the funds as of 31 December 2019. Profits respectively losses due to increases respectively decreases of the value of the Units of Participation are recognized directly in the Profit and Loss account.
- Cash and cash equivalents represent bank balances and deposits with terms of less than twelve months.
- On initial recognition current liabilities are recognised at fair value. After initial recognition long-term are recognized at fair value.
- Performance fee is accrued when the net asset value of each (sub)class of the Fund exceeds the prevailing high watermark (the highest net asset value on previous financial year ends of the Fund). As per the last Valuation Day of the financial year the actual amount due over that year is calculated for each (sub)class of Participations and any amount due is made payable by the Fund to the Investment Manager
- Management fees are the monthly fees due from the managed funds.
- Costs are determined on a historical basis and are attributed to the reporting year to which they relate.
- Material fixed assets are depreciated over their estimated useful lives as from the inception of their use.
- Pelargos entered into an agreement with Aegon Levensverzekering N.V. (Aegon), under which the latter grants the post retirement benefits to employees of Pelargos. Aegon has not renewed the contract which terminated after 10 years. Our pension advisor has inventorised several alternatives; after careful assessment we have selected NN as a new provider as of 1 January 2019. The new pension arrangement is a defined contribution scheme.

Notes to the balance sheet

- Accounts receivable at 31 December 2019 refer to management fee of December 2019 due and payable by the Pelargos Japan Alpha Fund.
- The financial instruments held by Pelargos are not traded in an active market. The net asset values of the participations is calculated by the Fund Administrator. The value calculation is based on the observable market prices of the underlying assets. Holdings in Pelargos Japan Long Short Value Fund and Pelargos Asia Alpha Fund were nil at the end of 2019 as a result of liquidation of these funds during the year.
- Cash is not subject to any restrictions.
- The managing board proposed to distribute nil dividend. The net loss of 2019 will be allocated to the other reserves.
- The long term liability of is longer than one year but shorter than 5 years, and refers to deferred variable remuneration.

Notes on the profit and loss account items

- The management fee is payable monthly in arrears and due as per the first day of the subsequent month. As seeding, large and long term committed investors, affiliated entities related to Aegon Group N.V. who are participants in the Pelargos Japan Alpha Fund and the Pelargos Asia Alpha Fund received a waiver of the performance fee. The “adjustment management fee” reflects the somewhat higher fixed fee paid by these investors.
- Pelargos has defined a remuneration policy. This includes among other things provisions on the deferral of at least 40% allocated bonus amounts. The directors discuss the proposed budgeted amount for variable pay with the shareholders. The directors decide on the assessment of the staff’s performance and the amount of variable pay allocated to each of them. 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.
- During the last months of 2019, Pelargos decided to introduce a new operational trading platform to achieve higher efficiency, and was working on the launch of a Japan long only equity fund. Both projects went live in early 2020.
- During the first quarter of 2020, the world was hit by a pandemic, COVID-19. The Manager’s Business Continuity Plan was activated and all staff started working from home. The Manager has carried out a detailed evaluation of the impact of this crisis on the financial results and position of the company as well as on the company’s operations, resulting in the following findings:
 - o 1. The Business Continuity Plans of the manager and its service providers (prime brokers Goldman Sachs and UBS, administrator and depositary BNY Mellon) are working well and all operational processes have been running smoothly up to the time of this report.
 - o 2. The fund is a hedge fund, which strategy is designed to offer a protection against sharp movements in the Japanese equity market where the fund invests. The strategy worked well during the crisis.
- The Manager has come to the conclusion that up to the date of this report, the impact of the Covid-19 crisis on the operations of Pelargos has been limited. Business volume and revenues are in line with the budget for 2020 which was drawn up before the crisis started.