



VIEW FROM THE TOP

In January, the Japanese equity market measured in terms of the MSCI Japan benchmark appreciated +1.3%. The Pelargos Japan B class returned -0.26%. The new year 2018 started with a bang and the market soared +5.8%, peaked on Jan 23rd and plunged -4.2% in a few days. Especially high price momentum stocks and stocks related to themes such as robots, artificial intelligence and crypto currencies sky rocketed. This type of investor behavior is a typical characteristic of overly buoyant investor sentiment and indicative of the final leg of a bull run. Retail investors finally joined the party and sentiment indicators hit levels not seen for decades. The exuberance is a global phenomenon with US margin debt-to-GDP at all time high's, consumer confidence is booming supported by decent economic data. The labor market is very tight, wages are growing albeit at a meager pace and corporates started to invest cautiously on machinery and capital stock. In typical late cycle fashion, fundamentals are rather good and bottlenecks start appearing. Nevertheless, inflation is not showing up yet and the Bank of Japan (BOJ) remains very aggressive in its policy stand. The biggest surprise of all is the Yen strength despite the Bank of Japan's (BOJ) effort to inflate by means of a weaker currency.

SINGLE STOCK OPPORTUNITIES

At the end of January Toshiba Plant System (TPS) was our largest long position. This core position was initiated in June 2013 and prior to that we held a long position for 14 months starting in June 2009. This company was, has been and still is grossly undervalued. An asset light, engineering business with domestic as well as overseas growth opportunities. TPS has a fortress like balance sheet with abundance of cash that unfortunately suppresses its Return-On-Equity (RoE). Adjusting for its cash pile the RoE would be 30+%. Sooner rather than later either Toshiba will buy out TPS and make 'decommissioning' part of the Toshiba core strategy or TPS will buy itself out. In both cases these scenarios will act as catalysts to unleash significant undervaluation.

The best contributor last month came from being long Fanuc. The growth outlook is stellar and with plenty of money chasing the robot theme the stock appreciated +8.6% last month. Having rallied more than +60% from

September price low into January price high we decided enough is enough and sold the stock. The growth and margin assumptions implied in the current stock valuation are too difficult to justify. Of course, we are happy to own Fanuc again at a much more reasonable price and patiently await a better risk-reward for re-entry. The biggest negative contributor was Maeda Road Construction. The stock was a stellar performer in the 4th quarter of 2017 and dropped in by -6% in January. With the benefit of hindsight the January drop must be seen in light of the earnings miss which was announced February 8th. This is a long duration investment as it is infrastructure related but the short term earnings were messy as it included an anti-trust provision for allegations related to bid rigging for public contracts.

RISK ALLOCATION

Volatility was still abnormally low and only increased towards the end of the month. For several months we wrote that our risk models were underestimating what we subjectively considered 'true' capital at risk. With the FED on a tightening cycle and the ECB in tapering mode we expect 'genuine' price discovery to return and with that a normalization of volatility. Therefore the risk budget remains low (implied by current market volatility) and over the next few months we will take advantage of volatility once it returns.

STYLE ANALYSIS

Value stocks had another disastrous month. High price momentum stocks, especially theme related stocks, performed extremely well. The long book outperformed the market by 0.2%, thus appreciating +1.5%. However, with expensive momentum stock going vertical the short book appreciated by +2.6%.

OUTLOOK

Sentiment indicators were flashing red, 'danger ahead' in January and, as is often the case, Japanese equities are most sensitive to marginal changes in global liquidity and sentiment. Each year, at some point, the Japanese market drops 20%, and in our opinion this process just started. The value opportunities for the long book are heavily tilted towards lower beta, higher dividend yield business models and thereby lower growth, which investors clearly choose to neglect at this point in the cycle.

FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

Toshiba Plant Sy
Ichigo Group
Shimachu
Resona Holdings
Maeda Road Const

TOP 5 MOVERS

Fanuc Corp (long)	0.29%
Shimachu (long)	0.24%
Pola Orbis (long)	0.21%
Takara Leben Infra (long)	0.20%
Ichigo Group (long)	0.15%

TOP 5 SHAKERS

Maeda Road Const (long)	-0.21%
Osg Corp (short)	-0.18%
Doutor Nichires (long)	-0.16%
Yamato Holdings (short)	-0.14%
Enplas Corp (long)	-0.11%

FUND FACTOR

	Long	Short
Price to Earnings (PE)	17.6	20.5
EV/EBITDA	10.1	13.1
Price to Book (PB)	1.8	2.7
Dividend Yield	2.2	2.0
EV/IC	0.9	1.9
1 month momentum	2.3	-2.5
12-1 month momentum	18.6	5.1

FUND PERFORMANCE*

Month to date performance	-0.26%
Year to date performance	-0.26%
Inception to date performance	60.59%

*based on share class B EUR

FUND FACTS*

Fund size in mln EUR	98.21
Fund size in mln USD	103.12
Firm size in mln EUR	239.86
Firm size in mln USD	298.81

RISK STATISTICS

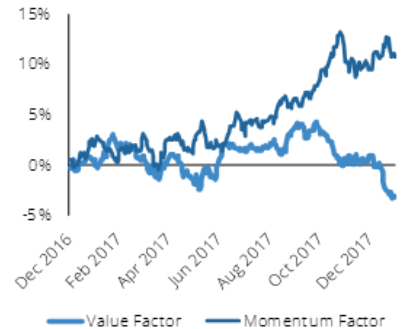
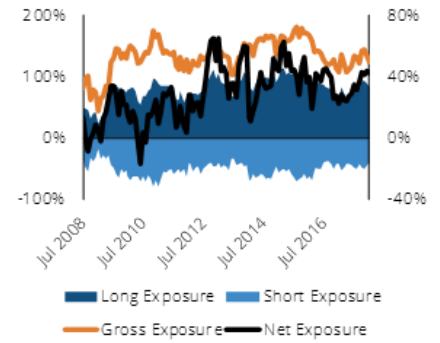
Net Exposure	42%
Gross Exposure	123%
Volatility (ex-ante; 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.73
Sortino Ratio	1.37
Sterling Ratio	0.60
Max Drawdown (monthly)	-8.4%
Annualized Return	5.0%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	16	-7	9	23
Consumer Staples	7	-6	1	13
Energy	0	-1	0	1
Financials	4	-1	2	5
Health Care	0	-2	-2	2
Industrials	24	-7	18	31
Information Technology	8	-4	4	12
Materials	3	-3	-1	6
Real Estate	17	-8	10	25
Telecommunication Services	0	-1	-1	1

GENERAL STATISTICS


% Return long book	1.48%
% Return short book	2.63%
# Long stocks	50
# Short stocks	10
% Long stocks ↑	62%
% Short stocks ↓	50%
# Up days / Down days	7 / 15
Turnover as % NAV	45%




FUND PERFORMANCE: CLASS B EUR	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
	2018	-0.26%													-0.26%
2017	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%	60.59%
2016	1.27%	0.92%	1.18%	-0.16%	-1.08%	-4.33%	2.12%	-1.05%	-0.29%	2.38%	0.88%	0.39%		2.07%	55.58%
2015	-1.24%	4.89%	-0.27%	3.25%	2.57%	-1.67%	-2.94%	-3.01%	2.46%	1.88%	2.06%	-1.42%		6.36%	52.42%
2014	-3.16%	-0.60%	-0.56%	-0.99%	-2.24%	1.44%	0.23%	-0.60%	2.06%	-1.89%	-1.24%	0.96%		-6.52%	43.31%
2013	5.35%	-0.58%	6.98%	6.48%	-1.07%	-0.78%	0.31%	-0.92%	1.18%	-0.80%	1.46%	1.73%		20.57%	53.31%
2012	-1.38%	3.81%	1.35%	-1.21%	-3.83%	1.76%	0.84%	0.93%	1.32%	0.58%	2.50%	4.06%		10.95%	27.15%
2011	0.93%	-0.03%	-1.55%	0.14%	-0.14%	0.42%	0.03%	-3.63%	0.69%	-0.38%	-2.60%	1.68%		-4.48%	14.60%
2010	0.73%	-0.23%	3.52%	3.39%	-2.83%	-1.31%	1.23%	-0.37%	0.91%	1.13%	1.40%	1.89%		9.67%	19.97%
2009	2.07%	1.67%	-0.73%	-0.67%	1.34%	1.13%	-1.93%	2.24%	-1.68%	-0.39%	-2.99%	2.84%		2.75%	9.39%
2008							0.96%	-1.35%	1.40%	3.44%	0.52%	1.39%		6.46%	6.46%



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Don't take any unnecessary risks.

Lower risk ← Higher risk
Typically lower rewards Typically higher rewards

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Risk Indicator

Read the Key Investor Information Document.

THIS IS A MANDATORY ANNOUNCEMENT