

Pelargos Japan Alpha Fund

April 2015



Fund Performance

The Pelargos Japan Alpha Fund Class B increased +3.25% in April. Inception-to-date (ITD) the fund is up 52.85% with a realized volatility of 7.3%, whilst the MSCI Japan is up 20% ITD with a volatility of 20%.

Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,344.96	3.21%	6.48%	34.50%
Class A USD	989.76	3.48%	6.40%	-1.02%
Class A JPY	97,797	3.11%	6.00%	-2.20%
Class B EUR	1,528.51	3.25%	6.66%	52.85%

Market Environment

In April, the MSCI Japan appreciated 3.2% in Japanese Yen (JPY) terms. With regards to foreign exchange, the JPY reversed last month's strength and declined 3.8% against the euro and appreciated slightly against the US dollar (+0.6%). For a few months now, the JPY/US dollar exchange rate has traded in a very narrow band with little volatility.

The Japanese equity market corrected from late March into early April by 5% and quickly rebounded to a new high for the year.

The most important observation for April was the significant reversal in style trends. Expensive, high price momentum stocks were down for the month and inexpensive laggards bounced strongly. In general, cheap reflation trades, especially Financials, outperformed and expensive, high return-on-equity type business models sold-off.

Our long book performed in-line with the market, despite its lower beta characteristics. The short book, on the other hand, was down 0.8%. The number of short holdings is rather limited as we diversified into the smart-hedge (basket of overvalued stocks) which accounted for 30% of NAV. That said, as our style is back in favor we intend to increase single stock short exposure again; expensive stocks are plentiful at the moment.

Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Energy	11.7%	10.6%	0.8	18.5
Banks	10.7%	19.0%	0.6	12.8
Insurance	7.1%	19.9%	1.0	16.5

Industry Group	MTD	YTD	PB	PE
Semiconductors	-9.4%	-7.2%	1.4	17.1
Household Prod.	-1.9%	21.5%	2.0	27.1
Consumer Serv.	-1.4%	10.9%	1.8	21.4

Source: Bloomberg

General Statistics

% Return long book	3.3%
% Return short book	-0.8%
# Long stocks	50
# Short stocks	11
% Long stocks ↑	62%
% Short stocks ↓	55%
# Up days / Down days	14 / 6
Daily Correlation with MSCI JP	0.67
Turnover as % NAV	27%

Source: Factset

Largest Long & Short Holdings

Longs	Shorts
Ichigo Group	Japan Real Estat
Honda Motor	Nippon Building Fund
Ryosan	Nissin Foods
Moshi Moshi	Mcdonald's Holding
Fujifilm	Yamato Holdings

Source: Citi Financial Services

Single Stock Activity

Largest Buy & Buy Cover*		Largest Sell & Short Sell**	
Nippon Telegraph	B	Nippon Building Fund	SS
Fuji Media	B	Japan Real Estat	SS
Alpine Elec	B	Nissin Foods	SS
Tonengen Sekiyu	B	Terumo Corp	S
Daiwa Secs Grp	B	East Japan Rail	S

* B = Buy; BC = Buy Cover

Source: Citi Financial Services

** S = Sell; SS = Short Sell

Investment Strategy

Our top 5 long positions are exactly the same as last month, in terms of names as well as in terms of ranking. With regards to the short book we had a few shorts on our watch list and decided that the timing is right to initiate the positions.

The entire food space in Japan strikes us as oddly expensive, we mentioned the likes of Kikkoman (36x P/E), Meiji (26x P/E) and Yakult (38x P/E) on several occasions and Nissin Foods is no different. Nissin Foods trades at 26x price-to-earnings ratio, analyst are downgrading its earnings and margins remain subpar.

Within the REIT space we shorted Japan Real Estate and Nippon Building Fund. We intended to reduce the net exposure in the REIT space and increase gross exposure in order to mitigate interest rate risk in the short term. With Ichigo REIT, Invincible REIT, Daiwa Office and Kenedix Retail the long basket is an inexpensive, quality collection of real estate assets, whilst Japan Real Estate and Nippon Building Fund are fully valued with less gearing to lower vacancy rates, better funding conditions and higher rents.

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Investment Strategy

Takara Leben stock continued its stellar run, appreciating another 14% in the month of April. The stock trades at 11x P/E however its P/B is 2.7x but with a return-on-equity of 20%. The most recent price appreciation is related to the company's solar exposure. The management considers an IPO of its solar assets into a REIT, reallocating the proceeds to buy backs Takara Leben stocks and invest in its successful condominium business.

Alpine contributed 30bps, we have been involved in Alpine's stock for the past 5 years and despite its stock quadrupling from 2012 lows there is still considerable value left.

Ichigo appreciated another 5.4% in April and has rallied 44% from January lows. The company presented good numbers mid April, with more to come.

Losses were minor in April, Ryosan continued to pull back another 3% after the 20% price spike in February. We remain confident in its upside potential and are looking forward to meeting the company again soon.

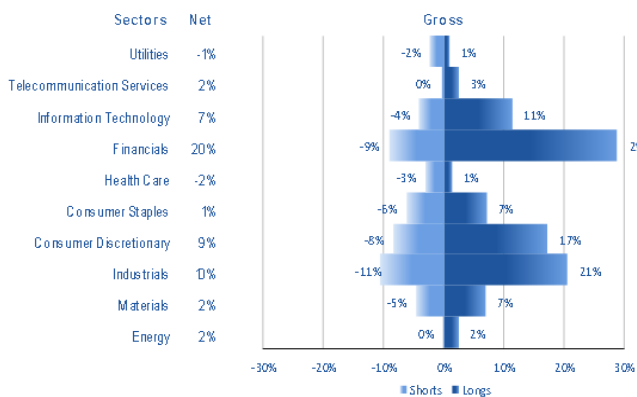
A few minor adjustments with regards to sector exposure; the overall net exposure was reduced and with that the biggest net reduction occurred in Industrials, from 15% down to 10%.

Top Gainers & Losers

Gainers	CTR*	Losers	CTR*
Takara Leben	L 0.4%	Ichigo REIT	L -0.2%
Alpine Elec	L 0.3%	Ryosan	L -0.1%
Ichigo Group	L 0.3%	Acom	L -0.1%
Honda Motor	L 0.2%	Chiyoda Co	L -0.1%
East Japan Rail	L 0.2%	Fuji Media	L -0.1%

*CTR = Contribution

Source: Factset

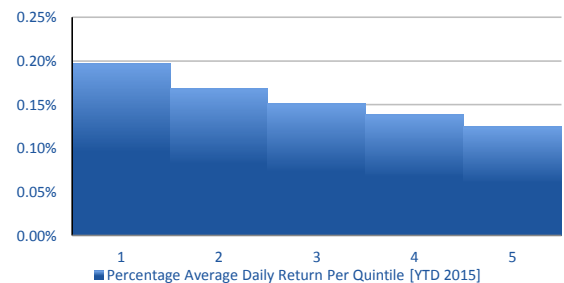
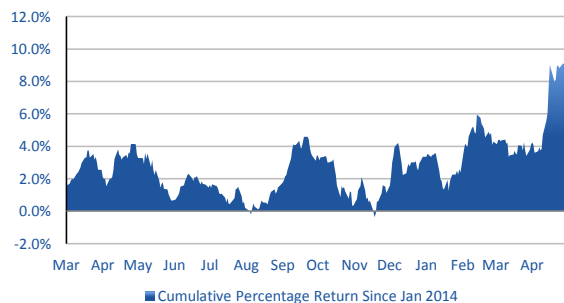


Source: UBS PAS

Value Factor Performance*

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MTD	3.5%	2.5%	4.6%	2.7%	3.9%	0.7%
YTD	1.9%	4.8%	3.5%	4.8%	3.3%	4.0%

Source: Factset*



Source: Factset*

Style Performance

On a daily basis we track numerous style factors based on our proprietary quant model, this helps us to detect misallocation and helps our understanding of style trends and investor's behavior in Japan.

The chart on the left shows how significant last month's value performance actually was. All value factors were positive and all value factors are now positive for the year. Price-to-book (P/B) outperformed the other value components and earnings revisions (not shown here) massively underperformed.

In our opinion, the April value performance confirms a trend change and value is well positioned to continue its strong performance.

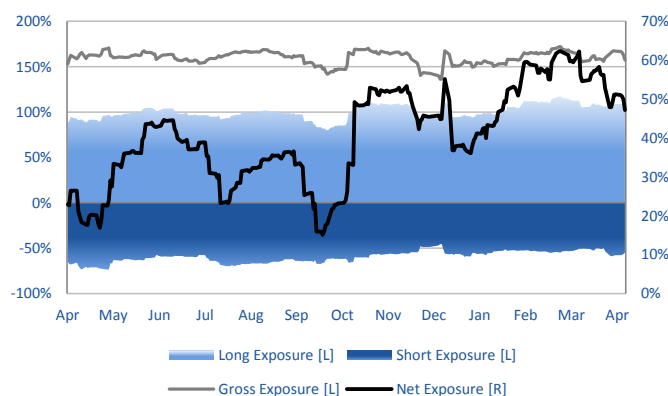
The decay of the value performance per quintile is rather systematic. Quintile 1 did better than quintile 2 and the basket with the most expensive stocks (Q5) performed worst.



Risk Measurement and Management

The chart below shows the rolling 12-month net and gross exposure for the fund. The gross exposure continues to be rather stable in a range between 130-160%. The gross exposure decreased somewhat together with the net exposure.

At the end of April, the net exposure stood at 47% and the gross exposure at 156%. As a result the ex-ante volatility declined from 11.1% to 9.1%. Due to our good performance over the past few months the price momentum exposure has increased. That said, the net exposure is highly stock specific and we refrain from owning crowded, expensive, high momentum trades. We still observe plenty of days on which our net exposure is negatively correlated with the market despite the significant net exposure.



Source: Citi Financial Services*

Fund Overview		
	Long	Short
Price to Earnings (PE)	17.5	72.1
EV/EBITDA	5.4	20.6
Price to Book (PB)	1.5	3.2
Dividend Yield	1.8	1.5
EV/IC	1.0	2.4
1 month momentum	3.4	-2.3
6 month momentum	19.1	11.1
9 month momentum	30.9	18.0
Earnings momentum (1M)	1.9	-6.9
Earnings momentum (3M)	6.2	-0.5
CFROI	5.7%	7.8%
Cash/MarketValue	43.2%	16.7%

Source: Factset

Style Exposure		
	Long	Short
Beta	1.0	0.9
Volatility	15.8%	14.7%
Debt-to-equity	10.00	74.00

Source: UBS PAS

Risk Statistics Delta Adjusted	
Volatility (ex-ante; 1yr daily data)	9.1%
Volatility (ex-ante; 5yr monthly data)	9.7%
Var (99%, 5 days)	2.7%
Beta (ex-ante)	0.37

Source: GS and UBS PAS

Outlook

Strategic Framework - Outlook 1st half of 2015

The VAT hike in 2014 increased real economic volatility and distorted underlying fundamentals. The Japanese equity market was very directional; large cap, weak Yen beneficiaries and REITs performed very well, whilst valuations did not really matter. 2014 was all about price momentum in combination with earnings revisions. This rather one dimensional behavior was exacerbated by the BOJ's aggressive intervention. The BOJ, and for that matter the FED and ECB, continue to distort market prices and price signals in general. The reason why capitalism used to work and enabled tremendous wealth creation is due to the very importance of price signaling. Price fluctuations due to constraints, be it oversupply or excessive demand, creates incentives for economic agents to correct for it. If at the very core, the price of money is distorted, everything is distorted and unintended consequences will (not 'might') arise. Despite all the fear mongering about the Japanese government debt, the 10-year JGB is trading at close to 30bps. 0.3% p.a. for the next 10 years just does not make any sense. The system is broken and central bankers are desperately trying to fix it. In the process of driving yields down even further, central banks are crowding out collateral from an already weak financial system. Good luck with all that. Admittedly, it is difficult to make sense of all of this, but one thing is for sure, the perceived stability and engineered suppression of volatility will have unintended consequences as central bankers can not control all prices all the time. One of these unintended consequences is the US dollar bull market which started in mid 2014. Most likely the US dollar strength will pause at some point, but when it reaccelerates markets will challenge central banks to open the magic tool box once again.

Tactical assessment – Outlook May 2015

Simple market neutral value investing had a tough time in Japan for the past 5 years. Post the crisis quality outperformed and in 2012 all assets were extremely inexpensive. With the multi-year reversal in the Japanese Yen and ensuing BOJ intervention, price momentum and earnings revisions performed very well. It seems early days, however in our opinion the dispersion within the Japanese market between the cheapest and the dearest was at multi-year extremes and that rubber band was stretched too far and needs to further revert. The value outperformance was quite extreme in April and a period of stabilization can be expected. Nevertheless, investors are still too complacent with regards to the corporate governance changes occurring in Japan. The train has left the station, the Japanese will follow other developed market in terms of corporate governance and shareholder return improvement is not in the price yet (at least for most of our long stocks).

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Historic Fund Performance (Monthly)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Class A EUR												
2015	-1.28%	4.85%	-0.32%	3.21%								
2014	-3.21%	-0.64%	-0.59%	-1.03%	-2.28%	1.40%	0.19%	-0.64%	2.01%	-1.94%	-1.28%	0.92%
2013	4.99%	-0.58%	6.55%	6.10%	-1.05%	-0.78%	0.26%	-0.91%	1.08%	-0.79%	1.35%	1.61%
2012	-1.43%	3.77%	1.31%	-1.26%	-3.88%	1.72%	0.79%	0.89%	1.28%	0.54%	2.53%	3.78%
2011	0.84%	-0.06%	-1.56%	0.10%	-0.19%	0.38%	-0.01%	-3.68%	0.64%	-0.41%	-2.64%	1.64%
2010	0.65%	-0.25%	3.27%	3.16%	-2.71%	-1.27%	1.12%	-0.39%	0.82%	1.03%	1.28%	1.75%
2009	0.35%	1.62%	-0.76%	-0.71%	0.98%	1.03%	-1.84%	2.07%	-1.61%	-0.40%	-3.37%	3.19%

Class A USD

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

Class A JPY

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

Class B EUR

2015	-1.24%	4.89%	-0.27%	3.25%								
2014	-3.16%	-0.60%	-0.56%	-0.99%	-2.24%	1.44%	0.23%	-0.60%	2.06%	-1.89%	-1.24%	0.96%
2013	5.35%	-0.58%	6.98%	6.48%	-1.07%	-0.78%	0.31%	-0.92%	1.18%	-0.80%	1.46%	1.73%
2012	-1.38%	3.81%	1.35%	-1.21%	-3.83%	1.76%	0.84%	0.93%	1.32%	0.58%	2.50%	4.06%
2011	0.93%	-0.03%	-1.55%	0.14%	-0.14%	0.42%	0.03%	-3.63%	0.69%	-0.38%	-2.60%	1.68%
2010	0.73%	-0.23%	3.52%	3.39%	-2.83%	-1.31%	1.23%	-0.37%	0.91%	1.13%	1.40%	1.89%
2009	2.07%	1.67%	-0.73%	-0.67%	1.34%	1.13%	-1.93%	2.24%	-1.68%	-0.39%	-2.99%	2.84%
2008							0.96%	-1.35%	1.40%	3.44%	0.52%	1.39%

Historic Fund Performance (Yearly)

	2015	2014	2013	2012	2011	2010	2009	2008
Class A EUR	6.48%	-6.99%	18.86%	10.24%	-4.96%	8.66%	0.36%	
Class A USD	6.40%	-7.38%	0.43%					
Class A JPY	6.00%	-8.06%	0.35%					
Class B EUR	6.66%	-6.52%	20.57%	10.95%	-4.48%	9.67%	2.75%	6.46%

Fund Facts

Investment Manager	Pelargos Capital
Legal Status	Fund for Joint Account
Fiscal Status	Tax Exempt
Dividend Policy	Reinvestment
Base Currency	EUR
ISIN Class A EUR	NL0009051887
ISIN Class A USD	NL0010545570
ISIN Class A JPY	NL0010545588
ISIN Class B EUR	NL0001118015
Inception Date Class A EUR	January 2009
Inception Date Class A USD	July 2013
Inception Date Class A JPY	July 2013
Inception Date Class B EUR	July 2008

Fund Facts

Fund Size in EUR	€ 95,830,721
Fund Size in USD	\$107,560,402
Participations Outstanding Class A	436
Participations Outstanding Class B	62,382
Minimum Subscription Class A	EUR 10,000
Minimum Subscription Class B	EUR 10,000
Dealing Day	First business day of each month
Subscription	Any dealing day
Redemption	20 business days notice
Management Fee Class A	1.5%
Management Fee Class B	1.0%
Performance Fee Class A	20% subject to High Watermark
Performance Fee Class B	15% subject to High Watermark
Early Redemption Fee	max 1% (accrues to Fund)

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Company Facts

Firm AUM in EUR € 244,115,323
Firm AUM in USD \$273,995,039

Portfolio Managers

Richard Dingemans
 Michael Kretschmer

Fund Description

Investment Strategy Equity Long/Short
Investment Style Value with a twist
Investment Objective Capital appreciation through investing in long/short positions in Japanese securities

Contact Details

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

Lock-up Class B

1 year

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