

Fund Performance

The Pelargos Japan Alpha Fund Class B declined -0.57% in April. Since July 2008, inception-to-date (ITD), the fund is up +51.62% with a realized volatility of 7.2%, whilst the MSCI Japan is up +11% ITD with a realized volatility of 20%.

Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,323.51	-0.61%	-2.70%	32.35%
Class B EUR	1,516.21	-0.57%	-2.55%	51.62%

Market Environment

With companies not reporting their 2016 results until May, global macro themes continued to dominate Japanese equity markets in April. The month can be split in two halves. The first was characterized by investor concerns that the populist movement that started with Brexit and continued with the election of President Trump, would lurch further to the right with a strong showing by the anti-European Marine Le Pen in the build up to the first round of the French Presidential election. The Japanese capital markets again acted as a warrant on global risk appetite. The Japanese yen extended its trend seen since the start of the year, strengthening from over 111¥/\$ at the start of April and only found support near its 200-day moving average below 109¥/\$ by the middle of the month as the French polls suggested that a Le Pen victory was looking less likely.

While global equities gave back some of their Trump-rally gains, Japanese stocks again took the brunt of investor's concerns and were -4% YTD by the middle of the month, while the S&P500 was still +4%.

The second half of April saw global investor sentiment rebound sharply as a Le Pen victory looked increasingly less likely. Global equity indices rallied to new all-time highs, and Japanese equities regained some ground, ending the month +1%. The momentum factor remained strong in April, explaining the outperformance of defensive Food & Staples stocks, while other defensives such as Household Products and Pharma lagged.

Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Real Estate	4.6%	-3.9%	1.1	15.6
Food & Staples	3.5%	0.7%	1.6	18.5
Retailing	2.7%	-0.6%	1.0	17.0
Industry Group	MTD	YTD	PB	PE
Energy	-5.9%	-2.2%	0.9	10.5
Household Products	-0.7%	8.5%	3.7	32.5
Pharma	-0.6%	2.2%	1.6	23.8

Source: Bloomberg

General Statistics

% Return long book	1.8%
% Return short book	2.3%
# Long stocks	44
# Short stocks	9
% Long stocks ↑	61%
% Short stocks ↓	56%
# Up days / Down days	10 / 8
Daily Correlation with MSCI JP	0.61
Turnover as % NAV	44%

Source: Factset

Top 10 gross positions

Nishimatsu Con.	3.8%	NBF	2.3%
Heiwa Real Est.	2.9%	Pola Orbis	2.2%
Nippon Gas	2.6%	Mitsui Chem.	2.2%
Toshiba PS	2.6%	Nabtesco	2.2%
Relia	2.3%	Takara LI	2.0%

Source: BNY Mellon Fund Services

Single Stock Activity

Largest Buy*		Largest Sell*	
Resona Holdings	B	SMFG	S
H I S	B	Fanuc Corp	S
Kenedix Retail	B	Honda Motor	S
Nichirin	B	Sumco Corp	S
Toshiba Plant Sy	B	Glory	S

* B = Buy; S = Sell

Source: BNY Mellon Fund Services

Investment Strategy

The market's volatility in April prompted some notable adjustments in the portfolio. Our financials exposure has been historically low given the long-term compression of yields, but we sold our sole long, SMFG, as yields fell at the first half of the month, only to then rebuild some yield curve exposure with a relatively small position in Resona Holdings, which has a clear path to higher shareholder returns, as yields recovered.

We initiated a position in Japanese travel agent/theme park operator HIS in April. Last year's earthquake has slowed visitors to their Kyushu theme park and HIS's travel business was hurt by the calendar effect this winter. With the stock trading at multi-year valuation lows, both should recover, with significant upside optionality should HIS win a license to operate one of Japan's new casino resorts. We added to our position in Kenedix Retail REIT, which not only yields >5%, but where dividends are reliably growing 4-5%.

The fund's largest positions remain domestically oriented. Nishimatsu Construction earns over 90% of revenue in Japan. At 8x 2017 PE and 0.9x PBR, and with a 3% dividend yield, the stock remains cheap, with an improving earnings outlook. Similarly, cosmetics maker Pola Orbis and gas retailer Nippon Gas generate almost all of their sales in Japan.

Investment Strategy

There are only few outliers on a single stock level this month. The long position in Heiwa Real Estate paid off and contributed 0.3% in April. The stock rallied 10.6% in anticipation of the new mid-term plan presented in the last week of April. Heiwa Real Estate owns the property in which the Tokyo Stock Exchange is located and with new tenants in this landmark location, the potential for rent increases are substantial. The stock is significant undervaluing the company's assets and the rent hikes might act as a catalyst for further price appreciation.

Finally, Fancl contributed positively, the stock price jumped 10% on the last trading day of April and appreciated 15% over the month. The company reported dull earnings for last fiscal year, but the guidance for fiscal 2018 got investor rather excited. The growth investments of the past two year suppressed margins and with revenues accelerating and margins normalizing the earnings potential is significant. The single stock losses last month were contained after all.

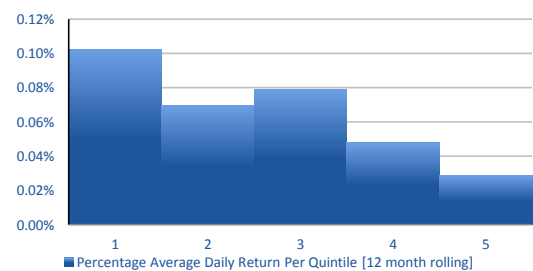
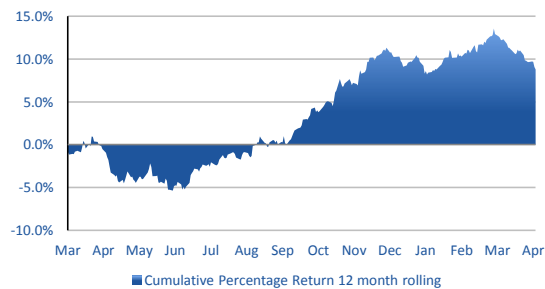
The biggest loser only lost 0.1%. Ichigo Office REIT continued to drift down during the month losing 11% without significant news. The stock trades at a 6% dividend yield.

On a sector basis not much has changed. The highest concentration of gross-/net-exposure remains in the Industrials sectors.

Value Factor Performance*

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MoM	-2%	-1%	-3%	-2%	-2%	-1%
YoY	14%	9%	22%	8%	7%	10%

Source: Factset*



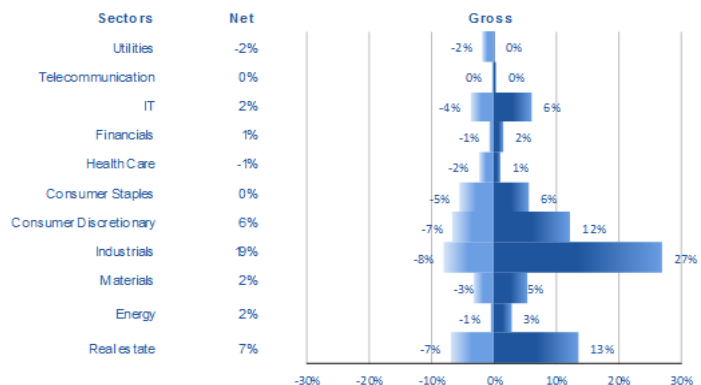
Source: Factset*

Top Gainers & Losers

Gainers		CTR*	Losers		CTR*
Heiwa Real Estat	L	0.3%	Ichigo REIT	L	-0.1%
Fancl Corp	L	0.2%	Pola Orbis	L	-0.1%
Toshiba PS	L	0.2%	Komeda Holdings	S	-0.1%
Ryosan	L	0.1%	Zuiko	L	-0.1%
Doutor Nichires	L	0.1%	Tokyo Ohka Kogyo	L	-0.1%

*CTR = Contribution

Source: Factset



Source: UBS PAS

Style Performance

On a daily basis, we track a number of style factors through our proprietary quant model. This helps us to detect dislocation within the market. In addition, it helps our understanding of style trends and investor's behavior in Japan.

The outperformance of the value factor started in the summer of last year and peaked in December. The strong performance of value was very consistent across different types of definitions and sectors. Since December, the strong performance of value stocks has stalled.

The value factor closely correlates with global yields as well as the Japanese yen.

In April, price-to-book (P/B) recorded a negative -3% spread return. Unfortunately, all value factors had a negative spread return last month.

The weighted average P/B of the long book is 1.5x compared to 2.1x for the short book. Price momentum exposure continues to be elevated. On a 9-month basis, the long book's price momentum is +17.1% and the short book's price momentum was just flat with +2.6%.

The P/E of the long book was 16.4x compared to 24.3x for the short book. The EV/EBITDA of the long book is 7.7x compared to 11.2x for the short book. The dividend yield of the long book is 2.2% compared to 1.9% in the short book.

Risk Measurement and Management

The chart below shows the rolling 12-month net and gross exposure as 10 (trading) days moving averages.

Last summer we were well positioned for the strong revival in cyclical value and in a disciplined manner took profits during the October to January period. Therefore, the net exposure dropped down to +20% and gross exposure to 100% by mid-February. Late February we re-introduced a higher risk allocation and expanded the long as well as the short book. 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%.

The ex-ante volatility based on daily data stood at 5.3% with an ex-ante beta of 0.29. The beta of the long book exceeded that of the short book as value opportunities are concentrated in higher beta situations.

Fund Overview

	Long	Short
Price to Earnings (PE)	16.4	24.3
EV/EBITDA	7.7	11.2
Price to Book (PB)	1.5	2.1
Dividend Yield	2.2	1.9
EV/IC	1.0	1.6
1 month momentum	1.7	-1.0
6 month momentum	9.6	4.2
9 month momentum	17.1	2.6
Earnings momentum (1M)	16.7	-0.6
Earnings momentum (3M)	16.2	6.7
CFROI	8.4%	12.1%
Cash/MarketValue	37.5%	13.9%

Source: Factset

Style Exposure

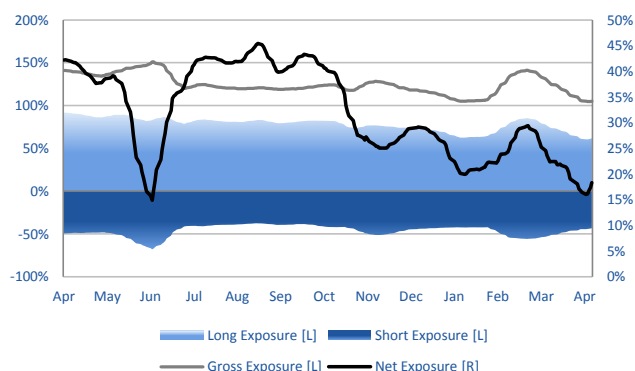
	Long	Short
Beta	0.89	0.82
Volatility	11.9%	11.9%
Debt-to-equity	3%	73%

Source: UBS PAS

Risk Statistics Delta Adjusted

Volatility (ex-ante; 3 months daily data)	5.3%
Volatility (ex-ante; 5yr monthly data)	6.3%
Var (99%, 5 days)	1.0%
Beta (ex-ante)	0.29

Source: GS and Nomura



Source: BNY Mellon Fund Services*

Outlook

Strategic Framework - Outlook 1st half of 2017 & monthly outlook

The cyclical bear market from August 2015 into June 2016 took the broader index down -30% peak-to-trough. 2016 was another year of heightened macro event risk. Perceived low probability outcomes caused major surprises. Brexit related risk aversion upset markets globally and the outcome of the US presidential election led to further elevation of political uncertainty.

The Japanese market bottomed together with global bond yields in June 2016, and with that the greatest rotation from defensives into cyclicals for the past decade occurred.

For the first half of 2017 we expect the value trade to continue as yields need to adjust higher globally, be it due to better economic growth or central banks tapering. However, leverage in the global economic system is too high, therefore much higher yields cannot be absorbed and eventually disinflation will return.

For the immediate future Japanese equities look attractive as valuations are still cheap, earnings revisions are trending upwards and buyback programs are accretive for shareholders and supportive from a flow perspective.

In our opinion, the June to December rally was the initial up-leg in the continuation of the structural bull. This remains our base case, which has been severely tested in 2017, as the JPY strength in combination with lower yields globally pose considerable headwinds. Clearly our risk budgeting indicates that our conviction level has declined, but we know what to look out for and bottom-up have great conviction in the potential returns of our single stock exposure.

In the long book we have incredibly inexpensive companies. Once market participants start to focus on idiosyncratic factors a gain and put aside the top-down "Japanese equities equals Japanese Yen" mentality, we expect to capture significant gains from the great companies we invest in.

Whilst global equity markets continue to trend higher with clear leadership from the IT sector, Japan continues to struggle. Apparently, the global economy is doing somewhat better, not great but not dismal either. The Japanese economy is equally stable with pockets of growth and at the same time the powerful theme of increased shareholders return policies is not being rewarded by investors in Japan. The volatility in Japan remains tied to the Japanese yen, but with continued improvement in corporate governance the Japan discount will ever so slowly diminish.

Historic Fund Performance (Monthly)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Class A EUR													
2017	0.49%	-0.93%	-1.67%	-0.61%									-2.70%
2016	1.35%	0.88%	1.08%	-0.18%	-1.05%	-4.52%	2.08%	-1.09%	-0.33%	2.38%	0.99%	0.38%	1.78%
2015	-1.28%	4.85%	-0.32%	3.21%	2.54%	-1.63%	-3.07%	-3.05%	2.42%	1.83%	2.16%	-1.62%	5.81%
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%	-6.99%
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%	18.86%
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%	10.24%
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%	-4.96%
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%	8.66%
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%	0.36%
Class B EUR													
2017	0.56%	-0.92%	-1.63%	-0.57%									-2.55%
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%
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%
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%
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%
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%
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%
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%
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%
2008							0.96%	-1.35%	1.40%	3.44%	0.52%	1.39%	6.46%

Fund Facts

Investment Manager	Pelargos Capital
Legal Status	FGR (fund for joint account)
Fiscal Status	VBI (tax exempt)
Dividend Policy	Reinvestment
Base Currency	EUR
ISIN Class A EUR	NL0009051887
ISIN Class B EUR	NL0001118015
Inception Date Class A EUR	January 2009
Inception Date Class B EUR	July 2008

Company Facts

Firm AUM in EUR	€ 223,356,399
Firm AUM in USD	\$243,346,797

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

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Fund Facts

Fund Size in EUR	€ 85,463,368
Fund Size in USD	\$93,112,339
Participations Outstanding Class A	236
Participations Outstanding Class B	56,160
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, 5 business days notice
Redemption	15 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)
Lock-up Class B	1 year

Service Providers

Prime Brokers	UBS AG, Goldman Sachs International
Administrator	BNY Mellon Fund Services
Accountant	PricewaterhouseCoopers
Legal	De Brauw Blackstone Westbroek N.V.
Title Holder	SGG Netherlands N.V.
Depository	Bank of New York Mellon

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