

Pelargos Japan Alpha Fund

August 2015



Fund Performance

The Pelargos Japan Alpha Fund Class B decreased -3.01% in August. Since July 2008, inception-to-date (ITD), the fund is up 45.13% with a realized volatility of 7.4%.

Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,274.87	-3.05%	0.93%	27.49%
Class A USD	935.32	-3.37%	0.54%	-6.47%
Class A JPY	92,645	-3.08%	0.42%	-7.35%
Class B EUR	1,451.29	-3.01%	1.27%	45.13%

Market Environment

In August, the MSCI Japan declined -7.9% in Japanese Yen (JPY) terms. The JPY appreciated 2.2% against the US dollar and was unchanged against the euro.

Volatility in global equity markets continued to rise and reached its climax on August 24th when the Japanese market dropped -5.8% followed by another -3.3% the next day. At the low point the Japanese market was back to flat for the year, having previously appreciated 19% and reaching a multi-year high on August 11th.

All sectors were down for the month of August and amongst the worst performing industries were Financials, Autos and even low beta stocks, such as Household Products, sold off heavily. The long book actually outperformed the market and performed better than the short book.

However, the most significant loss occurred due to the net exposure. Our net exposure consists of low beta, low correlation type stocks. This is supported by the fact the long book declined 6.7%, which is 1.2% less than the overall market. Nevertheless, as volatility spikes, correlation spikes occur and even 'safe' investments, such as real estate investment trusts (REITS), turn into higher beta stocks.

Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Software & Services	-0.6%	33.6%	1.8	18.4
Telecommunication	-0.8%	19.2%	1.9	15.8
Pharma	-2.4%	32.0%	1.5	24.0

Industry Group	MTD	YTD	PB	PE
Div. Financials	-12.0%	7.5%	1.1	13.8
Automobiles	-11.1%	-5.6%	0.9	10.8
Household Products	-10.8%	27.4%	2.2	30.6

Source: Bloomberg

General Statistics

% Return long book	-6.7%
% Return short book	-7.0%
# Long stocks	52
# Short stocks	13
% Long stocks ↑	17%
% Short stocks ↓	77%
# Up days / Down days	7 / 13
Daily Correlation with MSCI JP	0.76
Turnover as % NAV	39%

Source: Factset

Largest Long & Short Holdings

Longs	Shorts
Ryosan	Kikkoman Corp
Honda Motor	Nippon Express
Pola Orbis	Nissin Foods
Moshi Moshi	Keyence Corp
Chiyoda Co	Unicharm

Source: Citi Financial Services

Single Stock Activity

Largest Buy & Buy Cover*		Largest Sell & Short Sell**	
Honda Motor	B	Keyence Corp	SS
Fanuc Corp	B	Unicharm	SS
THK	BC	Hino Motors	SS
Pola Orbis	B	SMFG	S
Itochu Corp	B	Central JR	S

* B = Buy; BC = Buy Cover

Source: Citi Financial Services

** S = Sell; SS = Short Sell

Investment Strategy

The order of the largest long positions has changed somewhat with Ryosan still being the largest. However, in the sell-off we added to Honda and Pola Orbis whilst we did not increase Moshi Moshi and Chiyoda, the shoe retailer. On the short side, we covered the short position in THK as the stock reached our expected price target and entered shorts in Keyence and Unicharm.

For the first time in more than 3 years we bought a long position in Fanuc. We have a tendency to stay away from mega-caps and well covered stocks as little informational edge can be identified. However, the stock has dropped 30% from its June highs and at this price level the stock has underperformed the broad index by a whopping 25% over the past three years. Smartphone and robot theme related buying led to froth in the stock and those expectations quickly reversed. The drop in the stock price seems excessive and with close to 1trn JPY in cash, equal to 25% of market capitalization, this best-in-class company has plenty of ammunition to reduce its share count.

Investment Strategy

Unsurprisingly, amongst the top 5 contributors are three short positions and despite the 7.9% market decline two long positions made it into the top 5 contributors. THK turned out to be a timely trading short and the position was covered late August. Chiyoda continued its stellar performance. Japan's second largest shoe retailer was discussed in June's monthly newsletter and appreciated 2.9% in August. Nishimatsu Construction even jumped 20% in August. This second-tier general contractor with 2700 employees, 1bn euro in market capitalization and a comparatively high exposure to civil engineering benefits from multi-year visibility of domestic large scale projects.

Fancl, one of the biggest gainers last month, saw its stock price decline -12% in August. There was little news out, our research still suggest the company is doing fine and the volatility is not for fundamental reasons.

Unfortunately, Ichigo lost 40bps in August. Long term we are very positive on the business developments at Ichigo, however the stock is highly volatile. Fundamentals remain strong and more downside volatility creates good re-entry points.

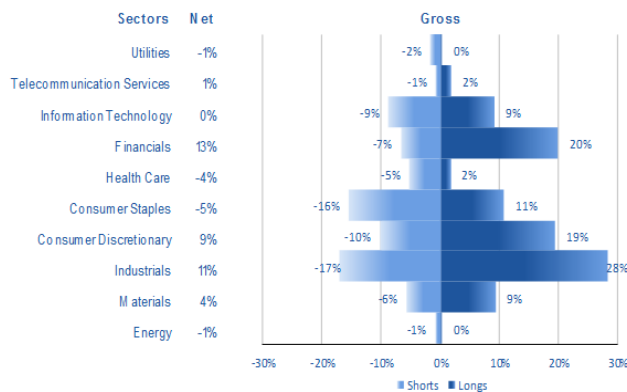
On a sector level the biggest change was the increase in net short exposure from 0% to -5% in Consumer Staples. We remain convinced that certain stocks in this sector are excessively valued.

Top Gainers & Losers

Gainers		CTR*	Losers		CTR*
Nippon Express	S	0.2%	Fancl Corp	L	-0.4%
THK	S	0.2%	Ichigo Group	L	-0.4%
Komatsu	S	0.2%	Ryosan	L	-0.4%
Nishimatsu Const	L	0.1%	Fuji Media	L	-0.3%
Chiyoda Co	L	0.1%	Amano Corp	L	-0.2%

*CTR = Contribution

Source: Factset

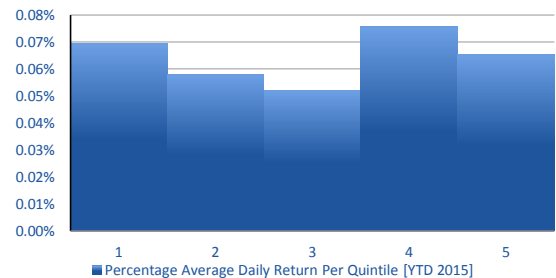
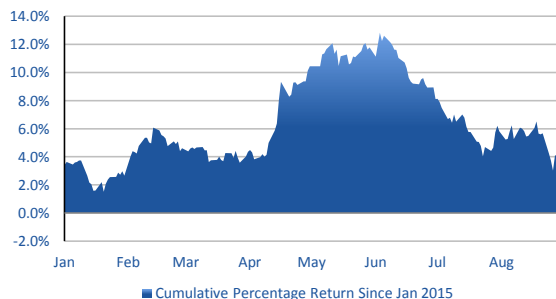


Source: UBS PAS

Value Factor Performance*

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MTD	-1.9%	-1.0%	0.0%	1.6%	0.3%	-1.6%
YTD	1.1%	-1.7%	-1.2%	1.5%	1.1%	1.4%

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 of capital within the market and helps our understanding of style trends and investor's behavior in Japan.

'Value' as a style continued its poor performance in August and has now retraced most of the performance for this year.

This weakness continued across most value factors, with price-earnings-ratio (P/E), enterprise-value-to-EBITDA (EV/EBITDA) and free-cash flow- yield (FCF) declining most. Dividend yield had a decent month and is the best factor for the year.

Last month, dividend yield suffered as a style. The fund is long dividend exposure mainly through the REIT space. We had significant REIT exposure early in the 2015, sold into strength and partly hedged it. In July we took off the hedges (Nippon Building Fund and Japan Real Estate), however the weak performance of REITs continued into August.

In the late August sell-off we observed a shift in betas and correlations. Low beta stocks participated aggressively in the sell-off and low beta, low price momentum stocks started to outperform. The change in market dynamics is supportive for our value exposure. Time will tell whether this was just noise or a real signal.

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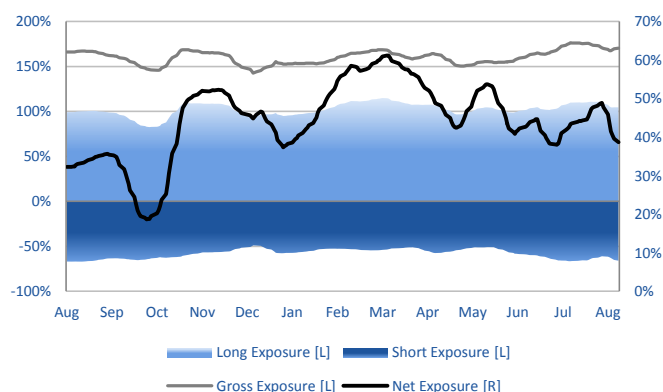
Risk Measurement and Management

The chart below shows the rolling 12-month net and gross exposure for the fund. In order to improve readability of the chart, the exposures are shown as 10 (trading) days moving averages.

The gross exposure has been in a rather stable range between 150-170%, and stood at 181% (delta-adjusted) at the end of August.

The net exposure at the end of August was 40%, which was somewhat lower than last month. Delta adjusted net exposure was just 28%. In late July we bought put options on the Nikkei and they had a delta adjust exposure of -12% at the end of August. If the index were to decline and delta approaches 1, the maximum delta-adjusted exposure accounts for -22%.

The ex-ante volatility remained unchanged at 8.8%.



Source: Citi Financial Services*

Fund Overview

	Long	Short
Price to Earnings (PE)	18.0	33.6
EV/EBITDA	8.7	14.3
Price to Book (PB)	1.5	2.3
Dividend Yield	2.1	1.4
EV/IC	1.0	2.0
1 month momentum	-6.1	-6.2
6 month momentum	1.9	-0.3
9 month momentum	12.2	12.6
Earnings momentum (1M)	18.2	6.4
Earnings momentum (3M)	9.3	-7.1
CFROI	7.1%	7.7%
Cash/MarketValue	35.7%	22.7%

Source: Factset

Style Exposure

	Long	Short
Beta	0.9	1.0
Volatility	18.6%	19.5%
Debt-to-equity	26.00	25.00

Source: UBS PAS

Risk Statistics Delta Adjusted

Volatility (ex-ante; 1yr daily data)	8.8%
Volatility (ex-ante; 5yr monthly data)	5.9%
Var (99%, 5 days)	2.6%
Beta (ex-ante)	0.25

Source: GS and UBS PAS

Outlook

Strategic Framework - Outlook 2nd half of 2015

Economic data is normalizing after last year's VAT hike. Finally underlying trends are meaningful again. The Japanese economy is not in great shape, but neither is the global economy. Nevertheless, at least the Japanese data has stopped disappointing. The weak Japanese Yen continues to be a support for a rather dull economy. The most interesting development is the volatility spill-over from currency and commodity markets into fixed income, and as of mid-June, finally into equities. Central banks aimed to suppress risk premia/volatility through monetary activism and 'achieved' the lowest long dated bond yields in centuries. A healthy financial system can cope with volatility. Accepting price swings yields the most efficient capital allocation, it rewards savvy market participants and punishes misjudgement as well as overly leveraged risk taking. The manipulation of market segments by central bankers results in underestimating risk and introduces second and third order effects of unintended consequences. Not all prices can be controlled all the time. Ultra low interest rates did not matter for a long time and now that the US Fed wants to 'normalize' interest rates currency markets need to re-price for policy divergence. The single most important economic variable for the second half of 2015 is the US dollar. As long as the US dollar appreciation and sell-off in long-dated bonds is gradual, the repercussion for the US economy remains limited and the Japanese market can continue its ascent. The collapse of commodities and emerging market equities have so far been ignored by developed market investors. But for how long? A lot of 'ifs' indeed, nevertheless a useful roadmap to keep in mind.

Tactical assessment – Outlook September 2015

Equity markets have finally got the memo and volatility has kicked in. Despite having bought significant downside protection and having increased single stock shorts in late July, the Japanese market first rallied to multi-year highs in early August, before the proverbial music stopped and stocks faltered. Volatility spikes are always unpleasant as damage across the equity universe is indiscriminately distributed and technicals supersede fundamentals. However, once the dust settles our dividend stocks will provide a downside cushion and shorting the high-price momentum, high-quality, expensive-defensives will finally bear fruit, as leveraged theme investor get purged by margin clerks. Central banks have abolished price discovery and created a phony market disconnected from economic reality. The mock realities in around the globe are connected through currencies which seem least susceptible to grand scale manipulation. Therefore, in the short-term the US dollar is the single most important variable, and if it resumes its ascent, we will find out who is swimming naked.

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Historic Fund Performance (Monthly)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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Class A EUR

2015	-1.28%	4.85%	-0.32%	3.21%	2.54%	-1.63%	-3.07%	-3.05%				
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%	2.62%	-1.70%	-3.04%	-3.37%				
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%	2.88%	-1.92%	-3.14%	-3.08%				
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%	2.57%	-1.67%	-2.94%	-3.01%				
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	0.93%	-6.99%	18.86%	10.24%	-4.96%	8.66%	0.36%	
Class A USD	0.54%	-7.38%	0.43%					
Class A JPY	0.42%	-8.06%	0.35%					
Class B EUR	1.27%	-6.52%	20.57%	10.95%	-4.48%	9.67%	2.75%	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 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	€ 90,987,180
Fund Size in USD	\$102,005,728
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, 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

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August 2015



Company Facts

Firm AUM in EUR € 232,743,581
Firm AUM in USD \$260,928,829

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

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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