

Pelargos Japan Alpha Fund

January 2015



Fund Performance

The Pelargos Japan Alpha Fund Class B lost 1.24% in January. Inception-to-date (ITD) the fund is up 41.53% with a realized volatility of 7.2%, whilst the MSCI Japan is up 6.36% ITD with a volatility of 20.2%.

Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,246.90	-1.28%	-1.28%	24.69%
Class A USD	917.48	-1.37%	-1.37%	-8.25%
Class A JPY	90,968	-1.40%	-1.40%	-9.03%
Class B EUR	1,415.28	-1.24%	-1.24%	41.53%

Market Environment

In January, the MSCI Japan appreciated +0.3% in Japanese Yen (JPY) terms, and rallied +9.9% in euro terms. The start of 2015 was rather eventful. The Swiss National Bank (SNB), the ECB, and several other central banks all surprised with aggressive market intervention, sending shock waves through the global currency and fixed income markets. The ECB's aggressive participation in the global currency war sent the euro tumbling as it dropped 20% against the US dollar since the middle of 2014. The SNB could not defend its euro peg any longer and was forced to revalue, which drove Swiss long term yields into negative territory. The name of the game is 'policy divergence'. All major central banks are engaged in monetary loosening policies whilst the US Fed intends to start tightening in the middle of 2015. This policy divergence looks to be a multi year phenomenon and the US dollar is in a multi year revaluation cycle against almost all currencies. Of course, in the very short run the US dollar is extremely overbought, energy prices extremely oversold and both look ready for reversal.

Needless to say, market dynamics are heavily influenced by central bankers' intention to distort market outcomes. In the case of Japan, we observe micro agnostic behavior, meaning nobody cares about single stocks; it is all about interest rate and currency sensitive baskets with price momentum. In a world of 0% interest rates investors have difficulties finding value anchors and just go with price and earnings momentum.

Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Pharma	12.2%	12.2%	1.6	22.2
Household Prod.	9.0%	9.0%	1.7	24.5
Transportation	6.4%	6.4%	1.1	17.6

Industry Group	MTD	YTD	PB	PE
Div. Financials	-8.0%	-8.0%	1.2	13.3
Real Estate	-6.8%	-6.8%	1.4	18.2
Banks	-4.3%	-4.3%	0.6	11.8

Source: Bloomberg

General Statistics

% Return long book	1.7%
% Return short book	7.1%
# Long stocks	47
# Short stocks	9
% Long stocks ↑	55%
% Short stocks ↓	22%
# Up days / Down days	12 / 9
Daily Correlation with MSCI JP	0.86
Turnover as % NAV	41%

Source: Factset

Largest Long & Short Holdings

Longs	Shorts
Moshi Moshi	Park24 Co
Ryosan	Start Today
Takara Leben	McDonald's
Ichigo REIT	Yamato Holdings
Honda Motor	Familymart

Source: Citi Financial Services

Single Stock Activity

Largest Buy & Buy Cover*		Largest Sell & Short Sell**	
Familymart	BC	Shin-Etsu Chemical	S
East Japan Rail	B	Dai Ichi Life	S
Nippon Yusen	BC	Kenedix Realty	S
Kikkoman Corp	BC	Nippon Telegraph	S
Chiyoda Co	B	Ichigo REIT	S

* B = Buy; BC = Buy Cover

Source: Citi Financial Services

** S = Sell; SS = Short Sell

Investment Strategy

As momentum investors push certain themes and baskets to extremes, disregarding valuation, we find it increasingly difficult to hold on to our short positions. The number of shorts is down to 9 names only. In the long books we have 47 positions. The largest long and short positions are displayed on the left. During last month we increased the Honda position and due to strong performance Moshi Moshi is now ranked first. Admittedly, we did not quite comprehend what caused the sudden price spike in our short position FamilyMart. Anyhow, we are very disciplined with our shorts and reduced it as the price rallied above the pre-set stop loss level. FamilyMart continued to lose market share against Seven&I, which we consider a much better franchise trading at lower valuations. McDonald's is still amongst the largest shorts and continues to be extremely overvalued, despite a string of tremendously bad news including a 38.6% yoy decline in same-store-sales.

In order to keep the market exposure stable we reduced the liquid names such as Shin-Etsu, Dai-ichi Life and NTT.

Investment Strategy

As noted above macro volatility was tremendous last month and most noteworthy in Japan was the reversal in 10 year JGBs. First the 10-year yield dropped from 33bps to 20bps and finally ended the month at 28bps. It looks all rather marginal, however the price action in the global bond market looks extreme and a sustained reversal has significant impact on many levels.

After a two week rally of 5% the REIT sector started its descent and remained in correction mode since. Most market segments with high price momentum, such as Pharma, Consumer Staples and Transport continued to rally whilst low momentum industries such as Banks, Real Estate and Energy continued to decline. Reflation themes were sold heavily and yield plays benefitted.

Despite some great stock picks such as Moshi Moshi Hotline and Takara Leben we continued to suffer losses from the extreme momentum behavior in the market. Moshi Moshi presented excellent quarterly numbers which reassured us that the company has build a multi-year earnings growth base.

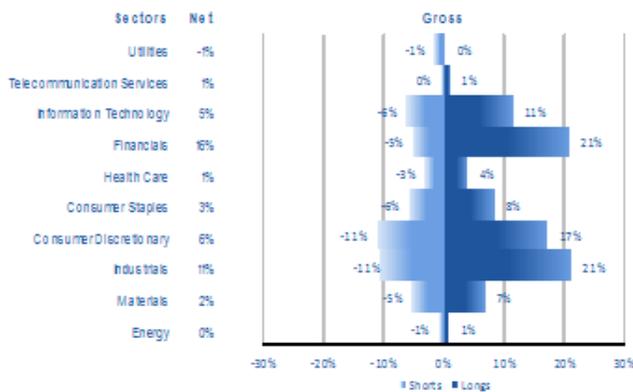
Takara Leben was outlined at several occasions in the past and the company delivered another set of outstanding earnings numbers. As life insurance company Dai-ichi Life stock is highly correlated with long bond yields, despite being extremely inexpensive and well positioned, lower bond yields still meant lower stock prices for Dai-ichi.

Top Gainers & Losers

Gainers		CTR*	Losers		CTR*
Moshi Moshi	L	0.8%	Dai Ichi Life	L	-0.4%
Takara Leben	L	0.6%	Familymart	S	-0.3%
Fancl Corp	L	0.1%	Ryosan	L	-0.2%
Terumo Corp	L	0.1%	Mitsui Soko	L	-0.2%
Tokyo Ohka	L	0.1%	Park24 Co	S	-0.2%

*CTR = Contribution

Source: Factset

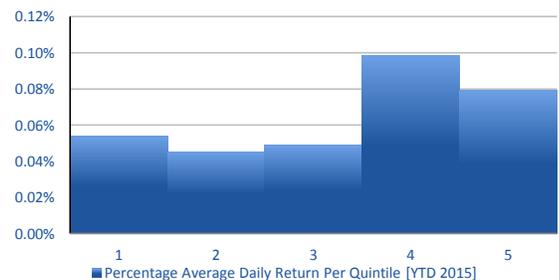


Source: UBS PAS

Value Factor Performance*

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MTD	-2.6%	1.8%	0.1%	0.5%	1.8%	-1.7%
YTD	-2.6%	1.8%	0.1%	0.5%	1.8%	-1.7%

Source: Factset*



Source: Factset*

Style Performance

On a daily basis we track numerous style factors based on our proprietary quant model, in order to help our understanding of style trends and investor's behavior in Japan. 'Enterprise value-to-earnings before interest depreciation and amortization' (EV/EBITDA) performed very well last year and this continued into 2015.

January tends to be a reversal driven market with value and low quality stocks outperforming. January 2015 was very different as price momentum continued to perform well and value only started to turn around in the last week of the month.

Our favorite value metric price-to-book (P/B) was flat for the month and earnings related factors, such as P/E performed poorly. The P/B of the long book is just 1.4x, 6.5x EV/EBITDA with a dividend yield of 1.8%. On the other side, the short book has a weighted P/B ratio of 3.7x and EV/EBITDA of 10.0x.

Our long book consists of companies holding a significant amount of cash and the CFROI on the long side is in excess of the short book.

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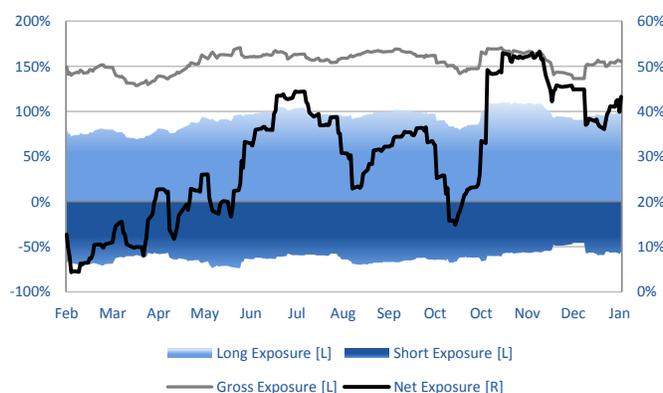
Risk Measurement and Management

The chart below shows the rolling 12-month net and gross exposure for the fund.

For the past 12 months the gross exposure ranged between 130-160% and the net exposure between 10-50%. We are still very excited about the great value opportunities in the long book and actively manage total net exposure as Japan tends to go through bouts, much more than other developed markets, of aggressive selling.

The net exposure at the end of January stands at 43% and consists mainly of low beta stocks. The ex-ante volatility based on our 1 year model is 8.2% and on a longer term basis 7.2%. At the end of January the fund's beta was 0.35.

Style wise, the fund remains heavily tilted towards value factors.



Source: Citi Financial Services*

Fund Overview

	Long	Short
Price to Earnings (PE)	17.8	46.7
EV/EBITDA	8.2	67.9
Price to Book (PB)	2.0	1.7
Dividend Yield	1.5	3.9
EV/IC	1.2	2.7
1 month momentum	3.5	5.9
6 month momentum	19.1	7.9
9 month momentum	29.9	7.5
Earnings momentum (1M)	6.7	-6.0
Earnings momentum (3M)	-4.3	-12.3
CFROI	8.1%	7.8%
Cash/MarketValue	23.1%	7.1%

Source: Factset

Style Exposure

	Long	Short
Beta	0.9	0.9
Volatility	16.8%	16.3%
Debt-to-equity	7.00	36.00

Source: UBS PAS

Risk Statistics Delta Adjusted

Volatility (ex-ante; 1yr daily data)	8.2%
Volatility (ex-ante; 5yr monthly data)	7.2%
Var (99%, 5 days)	2.5%
Beta (ex-ante)	0.35

Source: GS and UBS PAS

Outlook

Strategic Framework - Outlook 1st half of 2015

2014 was a difficult year. The VAT hike 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 one dimensional behavior was exacerbated by the BOJ's aggressive intervention, as it increased its stake in the global competition for monetary activism. 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 an outright deflation scare in the face of collapsing commodities will re-introduce systematic risk and markets will challenge central banks to open the magic tool box once again.

Tactical assessment – Outlook February 2015

The US dollar is extremely overbought and in the same context the energy space is extremely oversold. On a tactical basis the foreign exchange volatility as well as commodity volatility will diminish. This temporary relief will act in favor of reversion trades and thereby benefiting value related strategies. In addition, the depreciating euro and Japanese Yen will support those low growth regions and temporarily support risk assets as investors can focus on, at the margin, better economic data out of Japan and Europe.

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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%											
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%											
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%											
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%											
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	-1.28%	-6.99%	18.86%	10.24%	-4.96%	8.66%	0.36%	
Class A USD	-1.37%	-7.38%	0.43%					
Class A JPY	-1.40%	-8.06%	0.35%					
Class B EUR	-1.24%	-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	€ 88,761,342
Fund Size in USD	\$100,220,431
Participations Outstanding Class A	436
Participations Outstanding Class B	62,402
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 € 227,153,054
Firm AUM in USD \$256,478,513

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

Lock-up Class B

1 year

Service Providers

Prime Brokers UBS AG, Goldman Sachs International
Administrator Citibank Europe Plc.
Accountant PricewaterhouseCoopers
Legal De Brauw Blackstone Westbroek N.V.
Title Holder SGG Netherlands N.V.
Depositary Citibank International Plc.

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