

Fund Performance

The Pelargos Japan Alpha Fund Class B appreciated +0.56% in January. Since July 2008, inception-to-date (ITD), the fund is up +56.45% with a realized volatility of 7.2%, whilst the MSCI Japan is up +11.8% ITD with a realized volatility of 20%.

Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,366.95	0.49%	0.49%	36.69%
Class B EUR	1,564.49	0.56%	0.56%	56.45%

Market Environment

The global bull market continued to steam ahead as the MSCI World Equities in local currency appreciated yet another +1.3% in January. The MSCI Japan underperformed significantly adding just a few basis points (+0.1%) in Japanese yen terms. However, due to the recent JPY strength the MSCI Japan was up +3.3% in US dollar terms.

The global bond market sell-off stabilized post the Fed meeting mid-December and as the interest rate differential stopped widening the Japanese yen (JPY) weakness quickly reversed.

Value stocks underperformed in January. After the strong outperformance from early July into mid-December, a multi-week consolidation period seems warranted.

Heading into earnings season stock specific moves will dominate and only thereafter we expect value stocks to outperform again. During earnings season macro factors tend to diminish and micro, bottom-up newsflow dominate price action. During earnings season we focus on validating or rejecting our fundamental thesis on individual positions.

In January the long book significantly outperformed the broader market and the short book significantly underperformed resulting in a solid spread return of 0.5% for the month.

Despite the limited net exposure and significant spread return between the long and the short book the daily correlation turned out to be rather elevated at 0.6.

The turnover continued to normalize towards 29%.

Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Telecommunication	7.1%	40.4%	2.0	14.4
Semiconductors	7.0%	42.1%	1.7	21.2
Materials	5.7%	5.6%	0.9	14.4

Industry Group	MTD	YTD	PB	PE
Utilities	-4.9%	-3.3%	0.8	16.9
Real Estate	-3.7%	-5.8%	1.1	14.7
Retailing	-2.8%	15.3%	1.0	18.6

Source: Bloomberg

General Statistics

% Return long book	1.1%
% Return short book	-0.9%
# Long stocks	47
# Short stocks	10
% Long stocks ↑	51%
% Short stocks ↓	50%
# Up days / Down days	12 / 9
Daily Correlation with MSCI JP	0.64
Turnover as % NAV	29%

Source: Factset

Top 10 gross positions

Pola Orbis	4.7%	Nippon Gas	2.3%
Toshiba Plant	3.0%	Sumco	2.2%
Resona	2.7%	Azbil	2.1%
Relia	2.7%	Fuji Media	2.0%
Technopro	2.4%	Nabtesco	1.9%

Source: BNY Mellon Fund Services

Single Stock Activity

Largest Buy & Buy Cover*		Largest Sell & Short Sell**	
Nabtesco	B	Sumitomo Met Min	S
Resona Holdings	S	Acom	S
Azbil Corp	B	Ichigo Group	S
Fanuc Corp	B	Sumco Corp	S
Toray Industries	BC	Nippon Express	SS

* B = Buy; BC = Buy Cover

Source: BNY Mellon Fund Services

** S = Sell; SS = Short Sell

Investment Strategy

As we outlined last month, intra-market correlation dropped sharply and as such stock picking tended to be easier. Therefore increased single stock positions are warranted against a back drop of a subdued net and gross exposure. Pola Orbis was the largest position followed by Toshiba Plant Systems. The top 10 positions are a well-balanced collection of domestic, very company specific business models and stocks exposed to the global cycle without being overly dependent on either interest rates or the Japanese yen.

Over the past few months we took profits on the low price-to-book (PB) cyclicals and exited most of the positions in the likes of Ube Industries, Amada and Komori. Such low PB cyclicals traded back to fair value, which in these cases tends to be 1x PB.

We recognized that the quality cyclicals such as Nabtesco and Fanuc have massively underperformed. For example, Fanuc's PB ratio has declined from 4x PB in 2015 to below 2.5x in December 2016, a good entry level indeed for one of the best business models in Japan.

Investment Strategy

The top 2 contributors in January are the same as in the prior month; Pola Orbis and Sumco. Pola Orbis appreciated another +11% in January as the company had its most important product launch in a decade. The quasi-drug skin care product is off to a good start and we expect further top-line acceleration, as well as margin improvements to drive great bottom-line results for quarters even years to come.

Sumco rallied 17% last month as more and more investors, as well as the sell side community, started to appreciate the magnitude of the price hikes in the very tight demand-supply environment. Earnings estimates need to be revised upwardly and sell side analysts are very reluctant to do so. The Sumco stock still has more sell recommendations than buy recommendations, most of them having missed the 180% rally from July 2016 lows.

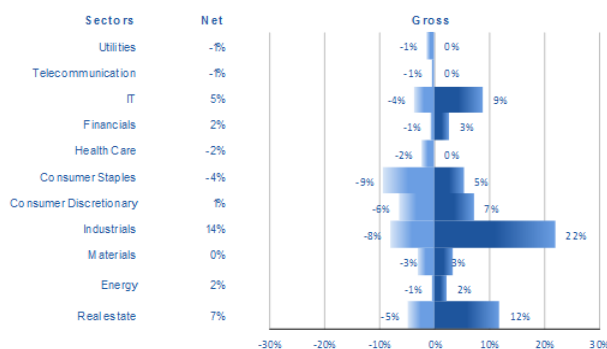
Toshiba Plant Systems bounced back from last month's Toshiba Corp related sell-off and added +20bps. The biggest loser in January was Ichigo Group. We held a long position to various degrees in Ichigo Group since 2010. The company has an excellent track record and traded from outrageously cheap to a level at which expectations were too high to carry the stock even further. Time for a pause and having participants in the stock reset expectation levels. We continue to monitor Ichigo Group closely and will take advantage of excessive down side volatility.

Top Gainers & Losers

Gainers		CTR*	Losers		CTR*
Pola Orbis	L	0.5%	Ichigo Group	L	-0.2%
Sumco Corp	L	0.4%	Takara Leben	L	-0.1%
Toshiba Plant	L	0.2%	Nippon Gas	L	-0.1%
Shin Etsu	L	0.1%	Acom	L	-0.1%
Japan Tobacco	S	0.1%	Fancl Corp	L	-0.1%

*CTR = Contribution

Source: Factset

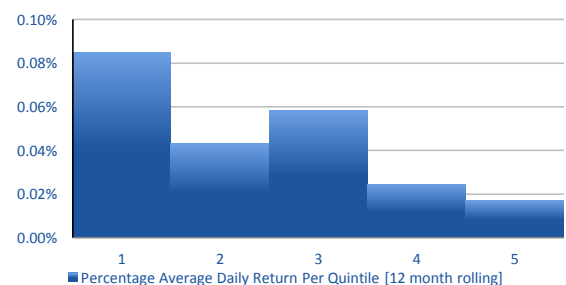
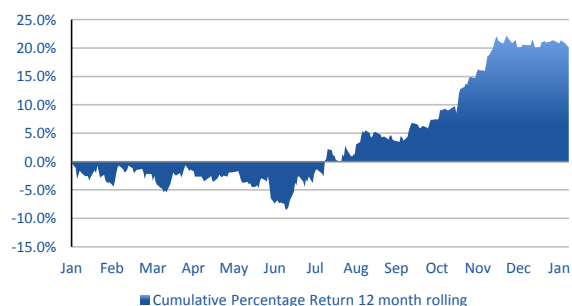


Source: UBS PAS

Value Factor Performance*

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MoM	-1.0%	-1%	0%	0.9%	-0.5%	0.7%
YoY	7.1%	7%	18%	13.9%	5.0%	11.0%

Source: Factset*



Source: Factset*

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 July and peaked in mid-December. The reversal in value coincided with the peak in the bond market. The performance of value was very consistent across different types of definitions and sectors. Most value factors are now showing strong momentum.

Value factors pulled back some more in January, only dividend yield had a bit of a comeback. We started to buy back into our favorite REIT stocks over the past few weeks as dividend yields became increasingly attractive after the multi-quarter sell-off.

The P/E of the long book increased to 19x compared to 24.1x for the short book. The EV/EBITDA of the long book is 7.7x compared to 10.9x for the short book. The dividend yield of the long book is 2.2% compared to 1.6% in the short book.

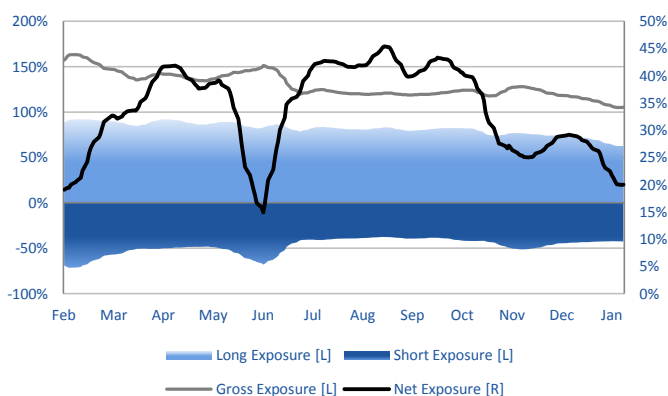
The weighted average P/B of the long book is 1.7x compared to 2.3x for the short book. The cheapest P/B stocks can be found in the financials sector. However, because we restrict our investment universe to what we deem knowable and comprehensible, we only follow a few banks and insurance companies. Price momentum exposure has increased significantly. On a 9-month basis, the long book's price momentum is +23% and the short book's price momentum is +6%.

Risk Measurement and Management

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

June was our worst month since inception and we acted in a disciplined manner and reduced risk. Once the great rotation kicked-in and we made back our losses, we were comfortable to carry 40% net until late October. Prior to the US election and into year-end we started to take profits in long positions where target prices had been met and at the end of 2016 the net exposure stood at 27%. The gross exposure stood at 113%. At the end of January the gross exposure had declined to 107% and net exposure stood at 22%.

The ex-ante volatility based on daily data declined to 5.8% with an ex-ante beta of 0.3. The beta of the long book exceeds that of the short book as value opportunities are concentrated in perceived higher beta situations.



Source: BNY Mellon Fund Services*

Fund Overview

	Long	Short
Price to Earnings (PE)	19.0	24.1
EV/EBITDA	7.7	10.9
Price to Book (PB)	1.7	2.3
Dividend Yield	2.2	1.6
EV/IC	1.0	1.9
1 month momentum	3.1	-0.4
6 month momentum	18.6	3.1
9 month momentum	23.2	6.1
Earnings momentum (1M)	11.3	26.0
Earnings momentum (3M)	8.9	23.2
CFROI	8.5%	10.3%
Cash/MarketValue	33.6%	18.6%

Source: Factset

Style Exposure

	Long	Short
Beta	0.98	0.76
Volatility	16.2%	13.8%
Debt-to-equity	4%	49%

Source: UBS PAS

Risk Statistics Delta Adjusted

Volatility (ex-ante; 3 months daily data)	5.8%
Volatility (ex-ante; 5yr monthly data)	5.0%
Var (99%, 5 days)	1.9%
Beta (ex-ante)	0.30

Source: GS and Nomura

Outlook

Strategic Framework - Outlook 1st half of 2017

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. January 2016 was one of the worst 'start-of-the-years' on record. In June, Brexit 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, and with that the greatest rotation from defensives into cyclicals for the past decade occurred. We correctly anticipated that the Fed would not be able to normalize interest rates as projected, because trend growth is too anemic. However, supply/demand balance shifted drastically in the bond market and with higher yields in the US the Japanese JPY weakened and with it value stocks finally performed well. 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 can not be absorbed and eventually disinflation will return. For the immediate future Japanese equities look attractive as valuations are not stretched, earnings revisions are trending upwards and buyback programs are accretive for shareholders and supportive from a flow perspective.

Tactical assessment - monthly outlook - unchanged from prior month

Cyclical value had a great run since the summer last year and the mispricing of cyclicals relative to defensives has corrected to some extent. In our opinion there is more to go. Because expensive, low-volatility stocks are highly correlated to bond yields, volatility in that space has returned with a vengeance. Investors realize that paying too high a price and herding into the low-volatility themes has introduced heightened risk. And indeed, for the past few months, the realized volatility of the low-volatility ETF surpassed the volatility of the overall market. We consider the discrepancy between price and value our guiding principle in how to think about risk. We are looking forward to a further de-rating of this market segment. Maybe this will be a good hunting ground for longs in the second half of 2017, when investors finally throw in the towel on their 'search-for-yield' and much loved low-volatility positioning. For the time being we remain short the expensive defensives and continue to take profits on cyclical value.

Historic Fund Performance (Monthly)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Class A EUR												
2017	0.49%											
2016	1.35%	0.88%	1.08%	-0.20%	-1.03%	-4.52%	2.08%	-1.09%	-0.33%	2.38%	0.99%	0.38%
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%
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 B EUR												
2017	0.56%											
2016	1.27%	0.92%	1.18%	-0.19%	-1.06%	-4.33%	2.12%	-1.05%	-0.29%	2.38%	0.88%	0.39%
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%
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)										
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Class A EUR	0.49%	1.78%	5.81%	-6.99%	18.86%	10.24%	-4.96%	8.66%	0.36%	
Class B EUR	0.56%	2.07%	6.36%	-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 B EUR	NL0001118015
Inception Date Class A EUR	January 2009
Inception Date Class B EUR	July 2008

Company Facts

Firm AUM in EUR	€ 221,534,229
Firm AUM in USD	\$238,902,513

Portfolio Managers

Richard Dingemans
 Michael Kretschmer

Fund Facts

Fund Size in EUR	€ 94,121,494
Fund Size in USD	\$101,500,620
Participations Outstanding Class A	236
Participations Outstanding Class B	59,955
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

Pelargos Japan Alpha Fund

January 2017



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

Legal

Title Holder	De Brauw Blackstone Westbroek N.V.
Depository	SGG Netherlands N.V.

Bank of New York Mellon

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