

Pelargos Japan Alpha Fund

March 2016



Fund Performance

The Pelargos Japan Alpha Fund Class B appreciated 1.18% in March. Since July 2008, inception-to-date (ITD), the fund is up +57.62% with a realized volatility of 7.3%, whilst the MSCI Japan is down -0.68% ITD with a realized volatility of 20.3%.

Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,381.18	1.08%	3.34%	38.12%
Class B EUR	1,576.18	1.18%	3.41%	57.62%

Market Environment

After the January / February bloodbath in Japanese equities, the MSCI Japan bounced +3.4% in March. Most Japanese companies paid dividends on March 29th, thus on a dividend adjusted basis the MSCI Japan appreciated +4.3%. From the February 12th lows the market rallied +15% up until March 4th when the market advance stalled. The remainder of March was characterized by volatility compression, swing trading in a narrow range and pronounced weakness on the last two trading days. The Japanese Yen was flat against the US dollar and depreciated more than 4% against the euro.

In March, our long book continued its stellar outperformance and appreciated +6.4% and the short book appreciated less, +5.7%. The fund's performance and daily correlation with the market was -0.34 and the turnover was limited to just 22% of net asset value (NAV). Our thesis remained unchanged; the global economy is in bad shape and the only game in town seems to be activist central banking. In our opinion, the monetary mandarins remain ineffective with regards to real economic activity. We construct the books bottom-up, as such we are long cheap domestic business models with a mid-cap bias. These tend to be specialist situations with little foreign shareholder participation. Therefore, foreign selling has not impacted our books too much. The short book has a large cap bias with somewhat more currency sensitivity. These stocks are too expensive as momentum investors extrapolated the currency impact despite the recent JPY strength.

Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Food & Staples	8.3%	21.3%	1.6	19.3
Consumer Durables	8.0%	-0.5%	0.9	15.2
Materials	7.8%	-21.4%	0.7	12.3
Industry Group	MTD	YTD	PB	PE
Insurance	-1.9%	-7.9%	0.7	13.2
Telecommunication	-1.6%	8.9%	2.2	16.0
Utilities	-1.1%	-1.7%	0.9	14.3

Source: Bloomberg

General Statistics

% Return long book	6.4%
% Return short book	5.7%
# Long stocks	48
# Short stocks	14
% Long stocks ↑	81%
% Short stocks ↓	7%
# Up days / Down days	10 / 10
Daily Correlation with MSCI JP	-0.34
Turnover as % NAV	22%

Source: Factset

Largest Long & Short Holdings

Longs	Shorts
Ichigo Group	Nippon Express
Relia	Hino Motors
Ryosan	All Nippon Airways
Pola Orbis	Kikkoman
Metawater	Keyence

Source: BNY Mellon Fund Services

Single Stock Activity

Largest Buy & Buy Cover*		Largest Sell & Short Sell**	
Komatsu	BC	Nikon Corp	S
Kose Corp	BC	House Foods Corp	SS
Yamada Denki	B	East Japan Rail	S
Hino Motors	BC	Takara Leben	S
Tokyu Corp	B	Ryosan	S

* B = Buy; BC = Buy Cover

Source: BNY Mellon Fund Services

** S = Sell; SS = Short Sell

Investment Strategy

With limited turnover last month the ranking of the largest long and short position has not changed much. Our books are highly stock specific and the core book is rather concentrated with only 62 positions, roughly half of which are long term holdings. The long book consists of noticeable more positions compared to the short book. We are willing to take liquidity risk in the long book and in addition we hold more stocks, because different investment thesis come with different investment horizons. For short positions we look for timely catalysts and those situations are fewer, whilst long position can be long duration with or without a catalyst if downside is limited.

We exited the entire Komatsu short position. This thesis is now well known, given Komatsu's exposure to mining and construction capex. The stock now trades at the same price-to-book level as during the 2008 crisis, definitely not an attractive level to be short anymore, and despite the headwinds, Komatsu is a decent quality operation.

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Investment Strategy

Our long term core long positions Ichigo Group and Takara Leben shot the lights out in March. Ichigo's stock appreciated 23% and Takara Leben +11%.

The top 5 winning positions are almost all purely domestic businesses, which is partly a reflection of our positioning. On the short side, we gained 0.5% in Hino last month and lost 0.3% this month. Whilst Kose dropped 12% in February the stock bounced back +13%, it made a full round-trip and we lost again what we made last month.

Despite the long book performing better than the short book we experienced some performance headwind by shorting high price momentum, high earnings momentum consumer staples stocks, which are trading at outrageous multiples. On the other hand, our shorts include cyclical stocks where investors, buy and sell side, underappreciate the earnings deterioration.

The largest net long position remained in the Financials sector. This allocation consists to a large extent of boring, good old-fashioned real estate investment trusts (REITS), which we picked for its high dividends and prospective dividend growth.

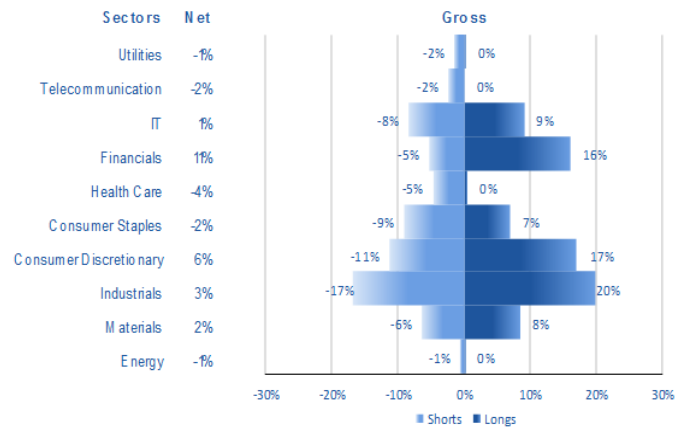
The Food & Staples sector was actually the best performing sector last month. It is classical bear market behavior when defensive sectors outperform in a bounce.

Top Gainers & Losers

Gainers		CTR*	Losers		CTR*
Ichigo Group	L	0.8%	Hino Motors	S	-0.3%
Takara Leben	L	0.4%	Komatsu	S	-0.3%
Metawater	L	0.4%	Kose Corp	S	-0.3%
Chiyoda Co	L	0.3%	Nippon Express	S	-0.1%
Pola Orbis	L	0.3%	Yamada Denki	L	-0.1%

*CTR = Contribution

Source: Factset

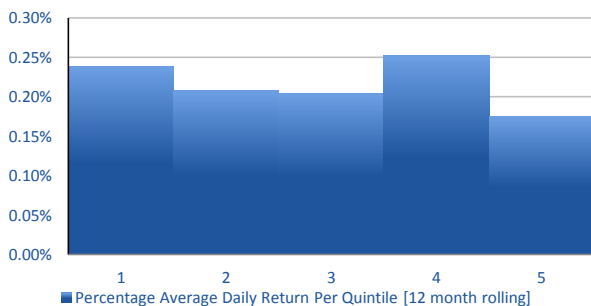
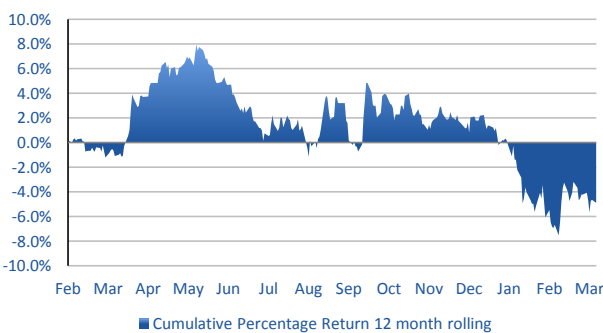


Source: UBS PAS

Value Factor Performance*

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MTD	1.8%	2.3%	-0.1%	1.7%	-1.8%	0.8%
YTD	-7.8%	-4.4%	-5.6%	3.8%	-2.6%	4.8%

Source: Factset*



Source: Factset*

Style Performance

On a daily basis we track a number of style factors based on 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 value factor performed better compared to last month, especially Enterprise Value-to-Earnings Before Interest Tax Depreciation and Amortization (EV/EBITDA). In addition, low Price-to-Earnings (P/E) stocks and high dividend yield stocks performed well.

On all these measures, the long book has better characteristics compared to the short book. The EV/EBITDA of the long book is 8.7x compared to 11.1x for the short book. The dividend yield of the long book is 2.0% compared to 1.5% in the short book.

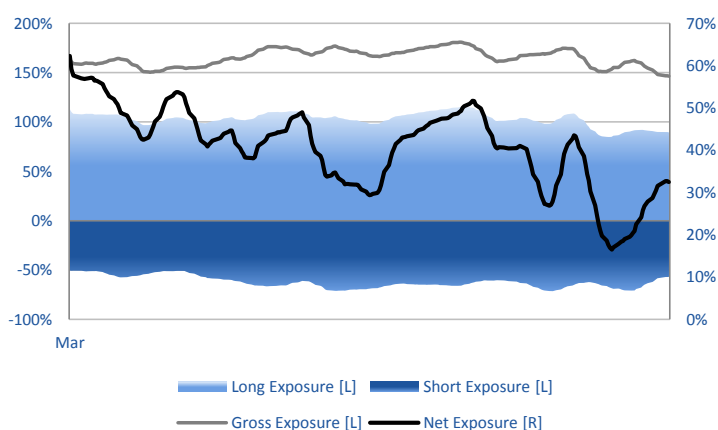
The momentum exposure (spread between long and short book) is close to non-existent on a 9-month basis and on a 6-month basis it is +7.3% for the long book and +2.5% for the short book.

The price-to-book (P/B) spread remained similar to last month with the long book's P/B of 1.6x compared to 2.0x for the short book. Given our value approach we have a strong preference for cash rich companies.

Risk Measurement and Management

The chart below shows the rolling 12-month net and gross exposure for the fund. The exposures are shown as 10 (trading) days moving averages. At the end of March the gross exposure stood at 140%, the delta adjusted gross exposure was 160%.

The net exposure stood at 33%. After the recent bounce in the market, spot volatility collapsed and we found downside protection cheap enough to re-establish sizeable downside protection. Including the index put option protection the delta adjusted net exposure stood at 11%. The ex-ante volatility based on daily data over the past 1 year was just 5.7% with an ex-ante beta of close to 0%. Partly because of the REIT exposure, and the fund's lack of bank exposure, the beta of the long book was 0.87. Historically, we have a preference for being long low beta stocks.



Source: BNY Mellon Fund Services*

Fund Overview

	Long	Short
Price to Earnings (PE)	17.5	23.2
EV/EBITDA	8.7	11.1
Price to Book (PB)	1.6	2.0
Dividend Yield	2.0	1.5
EV/IC	1.1	1.8
1 month momentum	7.3	4.3
6 month momentum	7.3	2.5
9 month momentum	0.7	-1.8
Earnings momentum (1M)	-5.1	4.0
Earnings momentum (3M)	-9.0	1.4
CFROI	7.0%	7.9%
Cash/MarketValue	30.5%	20.0%

Source: Factset

Style Exposure

	Long	Short
Beta	0.87	0.96
Volatility	23.2%	25.2%
Debt-to-equity	2%	33%

Source: UBS PAS

Risk Statistics Delta Adjusted

Volatility (ex-ante; 1yr daily data)	5.7%
Volatility (ex-ante; 5yr monthly data)	4.7%
Var (99%, 5 days)	1.5%
Beta (ex-ante)	-0.02

Source: GS and UBS PAS

Outlook

Strategic Framework - Outlook 1st half of 2016

The six year bull cycle in global equities is over. Last year's correction was the initial leg down in a cyclical bear market. The FED induced policy divergence resulted in universal US dollar strength and a substantial drain on global US dollar liquidity. With such drastic tightening, commodity prices collapsed and related credit suffered. We think, this cycle is only mid-way and it will end with a major liquidity event. Investors across asset classes are in the process of re-pricing risk, not only economic risk but also liquidity risk. The period of central banks suppressing risk premia through monetary activism has come to a halt and the price we pay for ultra low interest rates is capital mis-allocation. In our opinion, the US FED's 'normalization' of interest rates is built on the faulty assumption that the US economy can stand on its own feet. Due to central banks' intervention it is impossible to distinguish noise from signal. For us, it seems that the US recovery is asset price led and therefore a phony construct, which easily unravels once asset prices revert. 2016 has all the hallmarks of a proper cyclical bear market. For the time being, the FED does not come to the rescue. Getting off the zero bound is easier said than done, as the Japanese found out a decade ago.

Tactical assessment – Outlook April 2016

The grand experiment of blunt and obvious price manipulation by central banks becomes increasingly grotesque. It is estimated that globally there are now more than 7 trillion US dollar worth of negative yielding bonds outstanding. The majority of market participants and agents in the real economy find this phenomenon utterly absurd. However, the Professors at the central banks abolished common sense, deemed logical thinking obsolete and certainly not worthy of the ivory towers. The thinking goes, if central banking alchemy does not work it was not big enough, whilst if causalities make it seem effective, more needs to be done. Monetary policy has turned into fiscal policy without the democratic checks-and-balances. Unintended consequences are plentiful, on one hand suppressing risk leads to capital mis-allocation and deflationary forces will be exacerbated as consumers maintain excessive consumption and producers avoid capacity reduction as lower capital costs justify excess returns. Too low interest rates pull consumption forward and postpone failure, not a hallmark of a healthy economic system. Therefore we continue to operate under the assumption of continued meager growth, low returns and deflationary tendencies. That said, the current bear market is in full swing, we are well positioned and will take advantage once the fire sale starts.

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Historic Fund Performance (Monthly)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Class A EUR												
2016	1.35%	0.88%	1.08%									
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

2016	1.27%	0.92%	1.18%									
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)

	2016	2015	2014	2013	2012	2011	2010	2009	2008
Class A EUR	3.34%	5.81%	-6.99%	18.86%	10.24%	-4.96%	8.66%	0.36%	
Class B EUR	3.41%	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	€ 207,777,998
Firm AUM in USD	\$236,451,361

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

Fund Facts

Fund Size in EUR	€ 91,499,344
Fund Size in USD	\$104,126,253
Participations Outstanding Class A	236
Participations Outstanding Class B	57,844
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% (accrued 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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