

Fund Performance

The Pelargos Japan Alpha Fund Class B declined -1.63% in March. Since July 2008, inception-to-date (ITD), the fund is up +52.49% with a realized volatility of 7.2%, whilst the MSCI Japan is up +10.7% ITD with a realized volatility of 20%.

Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,331.58	-1.67%	-2.11%	33.16%
Class B EUR	1,524.86	-1.63%	-1.99%	52.49%

Market Environment

The MSCI World Index appreciated yet another 0.8% in US dollar terms. Unfortunately, the MSCI Japan showed another dismal month with -1.5% in Japanese yen (JPY) terms.

Risk assets globally continued to drift higher. The technology sector was amongst the strongest sectors together with defensive sectors such as Household Products and Consumer Durables.

Rates sensitive sectors as well as refraction trades, such as banks, real estate and insurance, showed poor performance globally. As the US yield curve flattened cyclicals continued to underperform defensives.

With declining long-term US yields the JPY strengthened considerably and appreciated 1.2% during March.

The JPY was surprisingly strong and share prices of companies with cyclically oriented businesses suffered considerably last month despite a constructive fundamental background.

Value as a style underperformed and expensive high return-on-equity (RoE) stocks significantly outperformed.

We monitor the stabilization of the value factor closely. Nevertheless, despite our well diversified collection of single stock exposure the long book declined by -1.4% only slightly outperforming the broader market. However, in March the short book consisting of expensive defensives only declined by -0.2%.

Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Semiconductors	7.7%	13.4%	1.7	22.1
Household Prod.	5.9%	9.2%	3.1	30.4
Consumer Dur.	3.1%	3.1%	0.9	18.1

Industry Group	MTD	YTD	PB	PE
Real Estate	-4.3%	-8.1%	1.1	14.6
Banks	-4.2%	-4.8%	0.5	9.9
Insurance	-3.6%	1.4%	0.9	11.8

Source: Bloomberg

General Statistics

% Return long book	-1.4%
% Return short book	-0.2%
# Long stocks	51
# Short stocks	7
% Long stocks ↑	25%
% Short stocks ↓	57%
# Up days / Down days	8 / 14
Daily Correlation with MSCI JP	0.58
Turnover as % NAV	53%

Source: Factset

Top 10 gross positions

Nishimatsu Con.	3.7%	Relia	2.4%
SMFG	3.0%	Sumco	2.3%
Nippon Building	3.0%	Honda Motor	2.2%
Pola Orbis	2.8%	Technopro	2.1%
Nippon Gas	2.6%	Mitsui Chem.	2.1%

Source: BNY Mellon Fund Services

Single Stock Activity

Largest Buy & Buy Cover*		Largest Sell & Short Sell**	
SMFG	B	Resona Holdings	S
Toshiba Machine	B	Mitsui Fudosan	S
Kose Corp	BC	Azbil Corp	S
Nissin Foods	BC	Honda Motor	S
Doutor Nichires	B	Fanuc Corp	S

* B = Buy; BC = Buy Cover

Source: BNY Mellon Fund Services

** S = Sell; SS = Short Sell

Investment Strategy

The turnover in names last month among the top 10 largest positions is worth mentioning. Several names dropped out as their adverse performance triggered a few stop losses and we drastically reduced Resona, Honda Motor, Fanuc and Mitsui Fudosan. In a very disciplined manner we downsized risk allocation significantly as our style and stock picking is currently not being rewarded. Despite rather supportive fundamentals, sentiment has drastically changed as the JPY strength triggered foreign exchange related earnings downgrades.

The largest positions are rather domestically oriented. Nishimatsu Construction is such an example with close to 90% of revenue coming from Japan. The stock trades at 8x 2017 price-to-earnings ratio, a 0.9x price-to-book ratio and a 3% dividend yield with decent outlook for the coming years.

Likewise, Pola Orbis and Nippon Gas generate more than 90% of revenue in Japan as well. Furthermore, we increased the position size in Toshiba Machine and Dotor Nichires and covered to some extent short positions Kose and Nissin Foods.

Investment Strategy

Equity volatility declined across the globe, as such the magnitude of single stock moves was limited. The cross currents of demand and supply in Japan are very systematic with little stock specific drivers. The negative performance in March was the result of a long list of small losses related to value massively underperforming expensive quality. The gainers in Japan were high price- and earnings-momentum stocks such as Technopro, Sumco and Azbil. Technopro is a high value added engineering solution/outsourcing company and continues to benefit from a tight labor market with pricing power and structural growth. Although the demand/supply imbalance in Sumco's wafer end market is well understood by now, continuous confirmation of a disciplined supply side control supports further price increases. As of last month Sumco contributed 1.5% since initiation in October 2016. Risk/reward has diminished and as such the position size has been reduced and stop losses levels upped accordingly.

The losses on a single stock level were minor last month. The REITs clearly stand out as both Ichigo REITs, the hotel and office REIT, declined despite lower bond yields globally. The diversification effect did not work as expected.

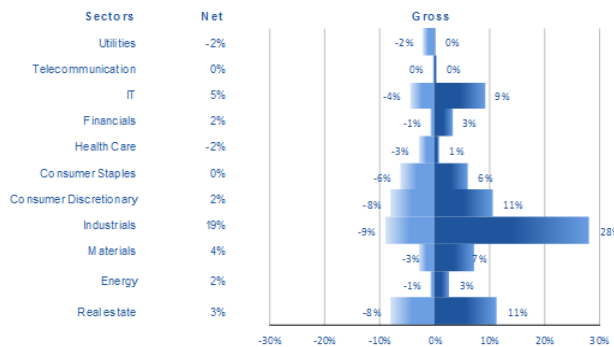
The highest gross exposure (+30%) is allocated to the Industrials sectors. The net long position in Industrials was +19% as of end of March and the IT sector accounted for a 5% net long position.

Top Gainers & Losers

Gainers		CTR*	Losers		CTR*
Technopro	L	0.2%	Nishimatsu Con.	L	-0.1%
Sumco Corp	L	0.2%	Toshiba Machine	L	-0.1%
Azbil Corp	L	0.1%	SMFG	L	-0.1%
Fanuc Corp	L	0.1%	Ichigo REIT	L	-0.1%
Toshiba Plant	L	0.1%	Ichigo Hotel REIT In	L	-0.1%

*CTR = Contribution

Source: Factset

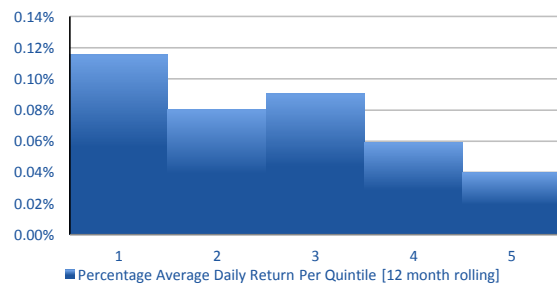


Source: UBS PAS

Value Factor Performance*

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MoM	1.2%	-1%	-2%	-1.6%	-1.9%	1.2%
YoY	14.4%	13%	22%	10.7%	5.5%	9.7%

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 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. For the past few weeks we observed a significant underperformance of value. In March, price-to-book (PB) recorded a negative 2% spread return. Even more surprising, in the face of global bond yields declining last month dividend, as a style, performed negatively as many high dividend paying stocks qualify as value stocks these days.

The weighted average P/B of the long book is 1.6x compared to 2.4x for the short book. Price momentum exposure continues to be elevated. On a 9-month basis, the long book's price momentum is +35.4% and the short book's price momentum was just flat with -0.4%.

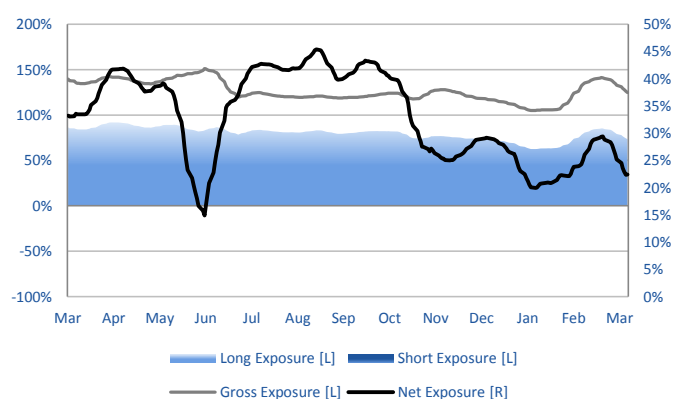
The P/E of the long book was 16.8x compared to 27.4x for the short book. The EV/EBITDA of the long book is 8.0x compared to 12.5x for the short book. The dividend yield of the long book is 2.2% compared to 1.9% in the short book.

Risk Measurement and Management

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

We were well positioned for the strong revival in cyclical value and in a very 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 is not being rewarded we quickly withdrew and lowered gross and net exposure again. At the end of the month gross exposure stood at 120% and net exposure at 25%.

The ex-ante volatility based on daily data stood at 5.3% with an ex-ante beta of 0.26. The beta of the long book exceeded that of the short book as value opportunities are concentrated in higher beta situations.



Source: BNY Mellon Fund Services*

Fund Overview

	Long	Short
Price to Earnings (PE)	16.8	27.4
EV/EBITDA	8.0	12.5
Price to Book (PB)	1.6	2.4
Dividend Yield	2.2	1.9
EV/IC	1.1	1.9
1 month momentum	-2.7	-1.4
6 month momentum	22.9	4.8
9 month momentum	35.4	-0.4
Earnings momentum (1M)	33.0	27.9
Earnings momentum (3M)	33.4	22.4
CFROI	7.9%	11.6%
Cash/MarketValue	33.1%	14.5%

Source: Factset

Style Exposure

	Long	Short
Beta	0.92	0.86
Volatility	11.9%	11.5%
Debt-to-equity	7%	73%

Source: UBS PAS

Risk Statistics Delta Adjusted

Volatility (ex-ante; 3 months daily data)	5.3%
Volatility (ex-ante; 5yr monthly data)	7.1%
Var (99%, 5 days)	1.0%
Beta (ex-ante)	0.26

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 cannot 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

We viewed the August 2015 – June 2016 decline in Japanese equities as a cyclical bear market after which the structural bull market will reassert itself. The June to December rally, in our opinion, 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 again 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.

Historic Fund Performance (Monthly)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Class A EUR												
2017	0.49%	-0.93%	-1.67%									
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%
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%	-0.92%	-1.63%									
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%
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	-2.11%	1.78%	5.81%	-6.99%	18.86%	10.24%	-4.96%	8.66%	0.36%	
Class B EUR	-1.99%	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	€ 228,789,872
Firm AUM in USD	\$243,706,971

Portfolio Managers

Richard Dingemans
Michael Kretschmer

Fund Facts

Fund Size in EUR	€ 87,876,064
Fund Size in USD	\$93,605,583
Participations Outstanding Class A	236
Participations Outstanding Class B	57,423
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

March 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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