

# Pelargos Japan Alpha Fund

## November 2015



### Fund Performance

The Pelargos Japan Alpha Fund Class B appreciated +2.06% in November. Year-to-date (YTD) the fund is up +7.90%. Since July 2008, inception-to-date (ITD), the fund is up +54.62% with a realized volatility of 7.4%, whilst the benchmark is up 17.3% ITD with a volatility of 20.2%.

### Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,358.46	2.16%	7.55%	35.85%
Class B EUR	1,546.20	2.06%	7.90%	54.62%

### Market Environment

After three months of enormous volatility the Japanese equity market drifted somewhat higher and ended the month of November with +1.1%. The market dropped more than 20% from the August high to its September low. In the August panic volatility spiked to the highest level since 2009 and as the forced selling subsided the market continued to drift higher. During the earnings season investors' attention shifted from macro news to single stock events. In the meantime, the Japanese Yen (JPY) did not move much and was more or less unchanged over the month.

In November, industry return differed widely, with semiconductors, health care equipment related and pharma stocks performing well. Whilst utilities, diversified financials and consumer durables performed poorly. The long book performed very well, outperforming the broader market by 2.1% but so did the short book. 67% of our long book ended the month higher and 31% of the stocks in the short book declined for the month.

The fund's daily returns were positive 14 days out of the 21 trading days. The correlation with the overall market based on daily observations picked up significantly compared to prior months and turned out to be 0.45.

The turnover of the core value book remained low with just 22%.

### Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Semiconductors	11.4%	-7.7%	0.9	13.6
Health Care Equip.	9.0%	27.0%	1.4	19.8
Pharma	5.5%	37.7%	1.8	23.6

Industry Group	MTD	YTD	PB	PE
Utilities	-8.3%	10.9%	1.1	15.6
Div. Financials	-2.6%	6.2%	1.1	13.4
Consumer Durables	-2.0%	13.5%	1.0	16.3

Source: Bloomberg

### General Statistics

% Return long book	3.2%
% Return short book	3.1%
# Long stocks	49
# Short stocks	13
% Long stocks ↑	67%
% Short stocks ↓	31%
# Up days / Down days	14 / 7
Daily Correlation with MSCI JP	0.45
Turnover as % NAV	22%

Source: Factset

### Largest Long & Short Holdings

Longs	Shorts
Ichigo Group	Nippon Express
Ryosan	Nissin Foods
Pola Orbis	Komatsu
Honda Motor	Kikkoman Corp
Dai Ichi Life	Hino Motors

Source: BNY Mellon Fund Services

### Single Stock Activity

Largest Buy & Buy Cover*		Largest Sell & Short Sell**	
Keyence Corp	BC	Shin-Etsu Chemical	S
Nissin Foods	BC	Nippon Building Fund	SS
Kikkoman Corp	BC	Nishimatsu Const	S
Hino Motors	BC	Komatsu	SS
Aeon Co	BC	Tokyu Corp	S

\* B = Buy; BC = Buy Cover

Source: BNY Mellon Fund Services

\*\* S = Sell; SS = Short Sell

### Investment Strategy

Ichigo Group remained the largest long position in November. Pola Orbis' stock price performed very well (+12% in November) and due to its price appreciation the position became third largest. In November, we took profits in Chiyoda Co, the shoe retailer, and Dai-ichi Life made it into the top 5 long positions. Whilst we partially covered Komatsu in October we increased the short position again in late November. The stock bounced 10% from the September lows and re-entering the short above 2000 JPY offered good risk/reward.

We covered some Keyence and sold Shin-Etsu after the stock bounced 20%+ from its September low. This high quality franchise remains attractively valued; however the underlying fundamentals are weakening rather than stabilizing as we had expected. Above 1.5x price-to-book, the risk/reward was not attractive enough to remain long. However, Shin-Etsu remains on our watch list.

**Investment Strategy**

Ichigo Group added another 0.4% in November after contributing 0.5% in October. The stock joined the first section listing on the Tokyo stock exchange and strong demand for the stock pushed it higher by another 10%. The stock rose +70% from its September lows. The fundamentals remain very strong and supportive. Ryosan jumped +6.4% on the last trading day of the month as the company announced a 4.2% share buy back. Not only are the fundamentals of this multi-year long position gaining traction, the continuous redeployment of excess cash is an important catalyst to unlock value.

The largest short position Nippon Express contributed 0.3% in November. The company operates in a low growth environment with cost pressures and insufficient bargaining power to raise prices without loss of market share. Furthermore, management announced a sizeable M&A deal at too high valuation, which was not taken well by market participants as it lowers the likelihood of a supportive share buyback.

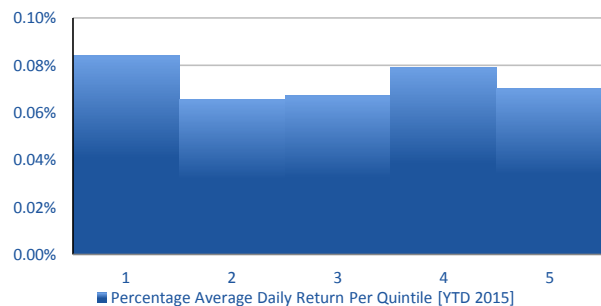
The largest loss in November was Nissin Foods. The stock jumped 10% on better than expected earnings. The company increased selling prices which helped to boost margins as volume response was quite muted. We have not exited the stock despite the upward revision as we doubt the sustainability of the profitability improvement.

On a sector basis, the largest net exposure is still in Financials (+18%) of which 10% are REITs.

**Value Factor Performance\***

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MTD	-0.7%	0.2%	-1.5%	1.2%	-0.5%	2.0%
YTD	2.1%	0.4%	0.4%	3.8%	0.7%	5.0%

Source: Factset\*



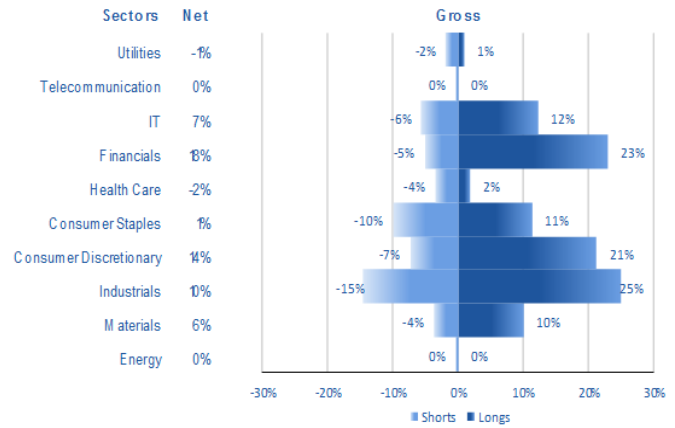
Source: Factset\*

**Top Gainers & Losers**

Gainers		CTR*	Losers		CTR*
Ichigo Group	L	0.4%	Nissin Foods	S	-0.3%
Pola Orbis	L	0.4%	Mitsui Soko	L	-0.2%
Ryosan	L	0.4%	Hino Motors	S	-0.1%
Nippon Express	S	0.3%	Kikkoman Corp	S	-0.1%
Metawater	L	0.3%	Tokyo Ohka Kogyo	L	-0.1%

\*CTR = Contribution

Source: Factset



Source: UBS PAS

**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.

November was not a good month for the price-to-book factor. Free-cash flow yield did reasonably well as did dividend yield. Our biggest dividend exposure is the 10% net long position in REITs. The REIT index had its third consecutive up-month and increased 1.6%, slightly outperforming the broader market. Although, year-to-date the REIT index still underperformed by a wide margin.

Unfortunately, the value factor remained rather choppy during 2015. Not only the value factor had little trend persistency, most other systematic factors we track are performing poorly in this environment.

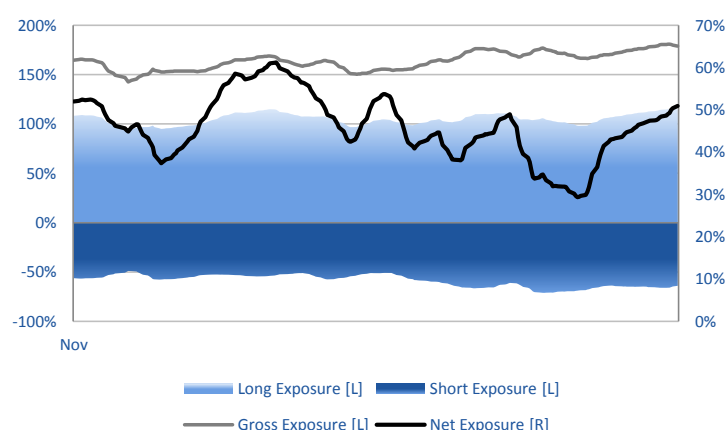
The P/B of the long book is 1.7x and 1.8x for the short book. Dividend yield of the long book is somewhat higher and EV/EBITDA of the long book is 8.6x compared to 10.6x for the short book.

### 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.

Over the past 12 months the gross exposure ranged between 150-180%, and stood at 170% gross exposure at the end of November.

The net exposure increased with the market advance. At the end of the month the net exposure stood at 52% and with that the ex-ante volatility based on 5 year monthly data reached 11.3%. The beta adjusted net exposure was 47%.



Source: BNY Mellon Fund Services\*

### Fund Overview

	Long	Short
Price to Earnings (PE)	19.0	22.1
EV/EBITDA	8.6	10.6
Price to Book (PB)	1.7	1.9
Dividend Yield	1.8	1.7
EV/IC	1.1	1.8
1 month momentum	7.3	7.4
6 month momentum	2.3	-4.3
9 month momentum	12.2	-3.7
Earnings momentum (1M)	15.8	-8.4
Earnings momentum (3M)	18.8	-9.6
CFROI	7.0%	7.8%
Cash/MarketValue	30.3%	22.6%

Source: Factset

### Style Exposure

	Long	Short
Beta	0.9	1.0
Volatility	20.3%	20.7%
Debt-to-equity	11%	25%

Source: UBS PAS

### Risk Statistics Delta Adjusted

Volatility (ex-ante; 1yr daily data)	11.3%
Volatility (ex-ante; 5yr monthly data)	9.5%
Var (99%, 5 days)	1.7%
Beta (ex-ante)	0.34

Source: GS and UBS PAS

### Outlook

#### Strategic Framework - Outlook 2nd half of 2015

The Japanese economy is not in great shape, neither is the global economy. The Japanese economic data remains lackluster and the weak Japanese Yen continues to be a support for this 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 misjudgment as well as excessively 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.

#### Tactical assessment – Outlook December 2015

Financial conditions in the global system continue to tighten as availability of US dollar liquidity worsens. Central banking induced policy divergence pushed up the US dollar to multi-year highs. As commodity prices collapsed liquidity was drained from emerging markets and foreign exchange reserves are dwindling rapidly across the globe. The downside risk for equities continues to increase against the backdrop of favorable seasonality. The FED is taking away the punch bowl despite a worsening outlook and the US central bankers are not going to support owners of risk assets in the short term. Bottom-up Japanese equities are in a better position and the tug-of-war will continue between bottom-up cost efficiency, corporate governance and productivity improvements versus the global economic cycle slowly and steadily fading.

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Historic Fund Performance (Monthly)												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Class A EUR</b>												
2015	-1.28%	4.85%	-0.32%	3.21%	2.54%	-1.63%	-3.07%	-3.05%	2.42%	1.83%	2.16%	
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%
<b>Class B EUR</b>												
2015	-1.24%	4.89%	-0.27%	3.25%	2.57%	-1.67%	-2.94%	-3.01%	2.46%	1.88%	2.06%	
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
<b>Class A EUR</b>	7.55%	-6.99%	18.86%	10.24%	-4.96%	8.66%	0.36%	
<b>Class B EUR</b>	7.90%	-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	€ 237,672,670
Firm AUM in USD	\$251,101,176

### Fund Facts

Fund Size in EUR	€ 96,776,233
Fund Size in USD	\$102,244,090
Participations Outstanding Class A	236
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

# Pelargos Japan Alpha Fund

## November 2015



### Portfolio Managers

Richard Dingemans  
Michael Kretschmer

### Fund Description

<b>Investment Strategy</b>	Equity Long/Short
<b>Investment Style</b>	Value with a twist
<b>Investment Objective</b>	Capital appreciation through investing in long/short positions in Japanese securities

### Service Providers

<b>Prime Brokers</b>	UBS AG, Goldman Sachs International
<b>Administrator</b>	BNY Mellon Fund Services
<b>Accountant</b>	PricewaterhouseCoopers
<b>Legal</b>	De Brauw Blackstone Westbroek N.V.
<b>Title Holder</b>	SGG Netherlands N.V.
<b>Depository</b>	Bank of New York Mellon

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