

Fund Performance

The Pelargos Japan Alpha Fund Class B appreciated +0.2% in November. Since July 2008, inception-to-date (ITD), the fund is up +60.36% with a realized volatility of 7.0%, whilst the MSCI Japan is up +29% ITD with a realized volatility of 19.2%.

Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,394.39	0.15%	2.51%	39.44%
Class B EUR	1,603.56	0.20%	3.07%	60.36%

Market Observations

The Japanese market appreciated another +1.4% in November with our long book appreciating +2.3% and the short book performing inline with the market; +1.4%.

Volatility increased in November with the market dropping -5.8% from the intra-day high on Nov 9th to intra-day low on Nov 16th. A long overdue correction, which provided the basis for another bull run into year end.

Whilst we realized a positive spread between the long and the short book, the hit ratio in the long book was rather poor. Only 55% of long positions appreciated this month and only 38% of short positions declined.

With the recent volatility in Japan, the breadth of the market diminished, which means fewer stocks participated in the recent advance.

Whilst the systematic hedge book had a decent track record in 2017, last month it was a drag on the performance. The systematic hedge book was up +3.1% against the market return of +1.4%. During November, high momentum stocks performed extremely well globally. The systematic hedge book, which consists of the most expensive, liquid stocks in Japan, has a strong momentum bias.

The correlation with the market jumped to 0.67 from 0.22 in October. With volatility on the rise last month we noticed a distinct pick up in intra market correlation. The turnover came in at a normal run rate of 30% of NAV.

Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Household Products	11.4%	46.8%	4.6	34.8
Retailing	7.6%	18.0%	1.3	18.7
Health Care Equip.	7.2%	16.8%	1.7	20.1

Industry Group	MTD	YTD	PB	PE
Banks	-3.6%	-0.5%	0.5	12.3
Utilities	-3.2%	-5.0%	0.9	16.3
Commercial Services	-2.3%	10.1%	1.8	21.7

Source: Bloomberg

General Statistics

% Return long book	2.3%
% Return short book	1.4%
# Long stocks	55
# Short stocks	13
% Long stocks ↑	55%
% Short stocks ↓	38%
# Up days / Down days	14 / 8
Daily Correlation with MSCI JP	0.67
Turnover as % NAV	30%

Source: Factset

Top 10 gross positions

Toshiba Plant	4.5%
Maeda Road	4.3%
Tokyu Corp	4.1%
Ichigo Group	4.0%
HIS	3.9%
Nishimatsu Construction	3.7%
Mitsui Fudosan	3.5%
Ariake Japan	3.1%
Pola Orbis	3.0%
Heiwa Real Estate	2.9%

Source: BNY Mellon Fund Services

Investment Strategy

We construct the portfolio bottom-up looking for undervalued, misperceived and easy to understand business models, that, with a high degree of confidence, can replicate historic execution.

The list of names in the table on the left is a reflection of the opportunities we strongly believe in. Each position comes with a stock-specific narrative, however currently we find a lot of mispricing in domestic asset plays.

Market participants globally are currently highly exposed to momentum trades, which tend to be IT related and in Japan consumer related stocks exhibit similar type of herding behavior.

Our domestic asset exposure tends to have a very strong corporate governance angle. We focus on those stocks with a high probability for improved capital allocation over a 3-5 years investment horizon.

Investment Strategy

Sumco surged yet another 13% in November contributing 0.5%. The industry dynamic remains extremely favorable. After a decade of excess capacity, strong wafer demand has led to a prolonged cycle with a favorable pricing outlook.

Ariake contributed 0.5% last month. A rather less well known company that manufactures seasonings for various types of soup stock. Ariake's products are specialized within seasonings as its ingredients are derived from livestock and based on natural ingredients only.

H.I.S. contributed 0.4% last month. The stock price appreciated 10% last month. The company announced a 25bn JPY convertible bond, highlighting the long term growth potential of H.I.S.

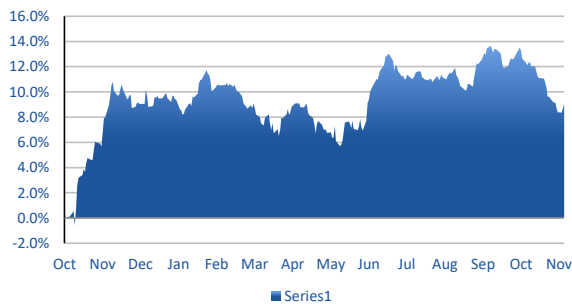
Our construction stocks contributed significantly over the past few months, however with lackluster numbers failing to surprise on the upside, Nishimatsu Construction and Taihei Dengyo traded down in November.

With additional profit taking in Industrials the sector's net exposure declined from 22% to 19%. Our sector allocation is the outcome of our bottom-up investment approach and with more and more opportunities presenting itself currently in Real Estate; the sector's net exposure has increased to 12%.

Value Factor Performance*

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MoM	-3%	-3%	-1%	-2%	-2%	-1%
YoY	7%	-2%	9%	2%	3%	3%

Source: Factset*



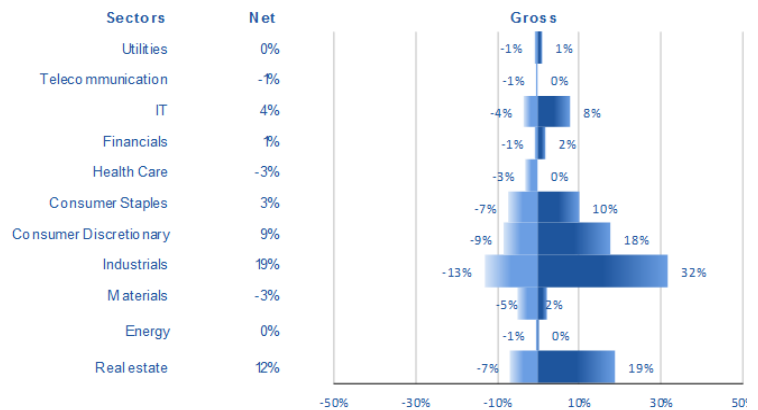
Source: Factset*

Top Gainers & Losers

Gainers		CTR*	Losers		CTR*
Ariake Japan	L	0.5%	Taihei Dengyo	L	-0.2%
Sumco Corp	L	0.5%	Nishimatsu Const	L	-0.2%
H I S	L	0.4%	Abc Mart	S	-0.2%
Toshiba Plant Sy	L	0.4%	Fuji Media	L	-0.2%
Pola Orbis	L	0.3%	Familymart	S	-0.1%

*CTR = Contribution

Source: Factset



Source: UBS PAS

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.

Our proprietary model shows that November was a rather difficult month for value. All underlying value factors had negative performance.

The only factor performing systematically well was price momentum as high price momentum stocks continued to outperform. This is not only a Japanese phenomenon, but can be observed in all major equity markets.

In our opinion, the herding into momentum reached extreme levels and with January being traditionally a reversal month, we expect a revival in value.

The Enterprise Value/Invested Capital ratio, which is comparable to P/B, but takes cash and liabilities into account, is a much better measure than P/B and still shows a massive valuation gap between the longs and the shorts.

The P/E of the long book increased somewhat and now stands at 18.4x. The increased exposure to Real Estate related names and lower exposure to cyclical value resulted in the slight increase of the P/E ratio. The P/E ratio of the short book stood at 20.3x. The EV/EBITDA of the long book stood at 10.1x compared to 12x for the short book. The dividend yield of the long book is almost equal to the short book.

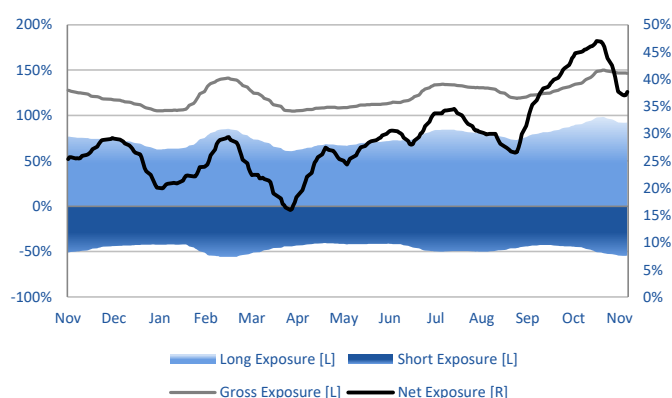
Despite the extremely high cash positions on the balance sheet in the long book ,the CFROI's of the long positions is 8.9% whilst the short book stands at 8.8% with higher leverage.

Risk Measurement and Management

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

The risk budget has steadily increased over the past few months and despite elevated levels of net exposure, due to the collapse in spot volatility, the ex-ante volatility stood at 5.8%. This is rather remarkable. Despite significantly more capital deployed this month, the beta on a fund level reached only 0.28.

These numbers are not a good reflection of the underlying risk involved as risk premia globally are extremely depressed. Even the long-term volatility measure stands at just 6.7%, which seems a more adequate representation of risk taken in a more adverse environment.



Source: BNY Mellon Fund Services*

Fund Overview

	Long	Short
Price to Earnings (PE)	18.4	20.3
EV/EBITDA	10.1	12.0
Price to Book (PB)	1.9	1.8
Dividend Yield	1.9	1.8
EV/IC	1.1	1.5
1 month momentum	3.8	0.9
6 month momentum	21.3	2.5
9 month momentum	27.7	3.7
Earnings momentum (1M)	20.8	-2.7
Earnings momentum (3M)	18.9	5.0
CFROI	8.9%	8.8%
Cash/MarketValue	34.7%	21.2%

Source: Factset

Style Exposure

	Long	Short
Beta	0.94	0.90
Volatility	10.9%	10.2%
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)	6.7%
Var (99%, 5 days)	1.3%
Beta (ex-ante)	0.28

Source: GS and Nomura

Outlook

After months of volatility compression and a steady bull run in Japanese equities, volatility jumped from a low base in November. The run-up into the November 9th market high almost looked like panic buying by global investors who were heavily underinvested in Japanese equities. There are great opportunities in Japan and we own many of them in the long book. However, global investors tend to be more simple minded. For one, buying what is already up is certainly in fashion, which is a dominant feature of investor's preference for market cap weighted ETF's. If a stock goes up its weight in the benchmark increases and therefore more capital needs to flow into this stock. On the other hand, the global money is mainly familiar with the larger capitalization companies that are well supported by the sell side. We tend to look for underappreciated assets, which are under the radar screens of the global capital market participants and we often hear that Japan is expensive and it is difficult to find good ideas. There are plenty of great opportunities, it just requires some effort to go and look for them.

For the time being, the bull market is well established. With the festive season comes the Santa Claus rally, which is followed by the January reversal rally. These seasonalities are highly significant and while not tradeable as such, are always important to keep in mind.

With our recent meetings at the Bank of Japan and prime minister Abe's Cabinet staff we became even more excited about the capital allocation revolution that is happening in Japan. Japan has an economic history of top down engineered capital allocation process by wide spread conglomerate structures and strong herding amongst the chief executives of these behemoths. On a micro level the Japanese economic system can be highly competitive with its entrenched customer service focus and its unwillingness to use prices as way to pass on higher costs. Despite the lackluster performance year-to-date in face of the massive equity rally, we remain very excited about the return outlook for the high conviction long positions.

Pelargos Japan Alpha Fund

November 2017



Historic Fund Performance (Monthly)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Class A EUR													
2017	0.49%	-0.93%	-1.67%	-0.61%	0.19%	1.28%	1.17%	0.42%	0.90%	1.14%	0.15%		2.51%
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%	1.78%
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%	5.81%
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%	-6.99%
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%	18.86%
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%	10.24%
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%	-4.96%
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%	8.66%
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%	0.36%
Class B EUR													
2017	0.56%	-0.92%	-1.63%	-0.57%	0.23%	1.32%	1.18%	0.46%	0.99%	1.25%	0.20%		3.07%
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%	2.07%
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%	6.36%
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%	-6.52%
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%	20.57%
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%	10.95%
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%	-4.48%
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%	9.67%
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%	2.75%
2008							0.96%	-1.35%	1.40%	3.44%	0.52%	1.39%	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

Fund Facts

Fund Size in EUR	€ 98,656,581
Fund Size in USD	\$117,880,424
Participations Outstanding Class A	236
Participations Outstanding Class B	56,178
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, 3 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

Company Facts

Firm AUM in EUR	€ 238,701,875
Firm AUM in USD	\$285,214,408

Portfolio Managers

Richard Dingemans
Michael Kretschmer

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

Fund Description

Investment Strategy	Equity Long/Short
Investment Style	Fundamental Value
Investment Objective	Capital appreciation through investing in long/short positions in Japanese securities

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