

Fund Performance

The Pelargos Japan Alpha Fund Class B appreciated +0.99% in September. Since July 2008, inception-to-date (ITD), the fund is up +58.06% with a realized volatility of 7.0%, whilst the MSCI Japan is up +21.2% ITD with a realized volatility of 19.3%.

Fund Performance

Share Class	NAV	MTD	YTD	ITD
Class A EUR	1,376.56	0.90%	1.20%	37.66%
Class B EUR	1,580.63	0.99%	1.59%	58.06%

Market Environment

The MSCI Japan surged higher last month, appreciating +3.6%. The strength in equities was supported by a weakening Japanese yen, although the daily correlation between the broader index and the Japanese yen continued to diminish. The latter is important, because it means that the Japanese market can climb on its own merits as earnings momentum is strong, valuations are cheap and global investors are heavily underweight Japanese equities.

Yields are drifting upwardly globally and that is certainly a positive for Japanese equities. Even more importantly, higher yields are supportive for cyclicals, which in our opinion continue to be undervalued.

The long book performed roughly in-line with the broader market appreciating +3.1%, whilst the short book was down 0.3%. The hit ratio in the short book was especially strong with 8 out of 11 short positions declining during September. This decent spread and the net long exposure drove the fund performance, +1% for September.

This month, the systematic hedge book appreciated by 2.4%, which compared to the MSCI Japan's +3.6% is a decent relative performance spread of 120bps. The turnover was at normal run rate of 35% of NAV and the daily correlation remained elevated at 0.48.

Top & Bottom Industry Movers

Industry Group	MTD	YTD	PB	PE
Energy	11.4%	13.0%	0.9	12.5
Semiconductors	10.9%	38.1%	1.9	21.0
Automobiles	7.6%	3.4%	1.1	12.6

Industry Group	MTD	YTD	PB	PE
Utilities	-4.9%	-4.7%	0.9	16.2
Household Products	-3.4%	26.7%	4.1	32.9
Telecommunication	-0.4%	7.5%	1.9	14.6

Source: Bloomberg

General Statistics

% Return long book	3.1%
% Return short book	-0.3%
# Long stocks	46
# Short stocks	11
% Long stocks ↑	67%
% Short stocks ↓	73%
# Up days / Down days	12 / 9
Daily Correlation with MSCI JP	0.48
Turnover as % NAV	35%

Source: Factset

Top 10 gross positions

Maeda Road	4.5%	Fuji Media	2.7%
Nishimatsu Con.	4.0%	Nippon Building Fun	2.4%
Toshiba Plant	3.7%	Mitsui Chemicals	2.4%
Ichigo Goup	3.1%	Pola Orbis	2.4%
Heiwa Real Estate	2.8%	HIS	2.3%

Source: BNY Mellon Fund Services

Single Stock Activity

Largest Buy*	Largest Sell*
Central JR	Fanuc Corp
United Arrows	Sumco Corp
Japan Tobacco	Nabtesco
Ariake Japan	Hitachi Capital
Terumo Corp	Mitsui Fudosan

* B = Buy; S = Sell

Source: BNY Mellon Fund Services

Investment Strategy

The top 3 names have not changed. The biggest conviction bets are highly stock specific situations. These are extremely undervalued and mainly domestically oriented companies. Last month we increased the position sizes in these top 3 holdings.

Ichigo Group, one of our longest standing core positions, was resized to above 3%. Holding this stock for more than 5 years and following its business very closely we assessed that the most recent cycle for Ichigo Group has bottomed out and its fundamentals are bound to reaccelerate.

Over the course of 2017 we shorted Japan Tobacco stock at various occasions as we deemed the drop-off in conventional, combustible stick consumption a serious headwind to its earnings outlook. Japan Tobacco has lost the innovation battle as e-cigarettes gained massive market share and crushed Japan Tobacco in its home market. Last month we decided to cover the shorts as the company is ramping up e-cigarette production in order to fight back, and at the margin the worst is behind it, especially because valuations became supportive and tobacco certainly is not a broken business model.

Investment Strategy

The winners were plentiful last month and the losers were contained to just one position losing 0.2%. Without any major news the share price of Nishimatsu Construction recovered and started to re-accelerate. The investment thesis for this stock has been outlined many times before; the fundamentals remain strong and the valuation stupidly inexpensive. The same goes for Maeda Road Construction. The stock experienced some profit taking during the summer months and strongly re-accelerated without much news in September and closed the month at new 2017 highs.

Ichigo Group had a bad start to the year with a drawdown of 30% in the first quarter, over the next 6 months the stock stabilized and with fundamentals bottoming out we aggressively increased position size and captured the 6.8% move in September.

H.I.S. had a bit of a pull-back in September which we related to negative sentiment around travel activity as geopolitical risk and typhoon disruption put a bit of pressure on the stock price.

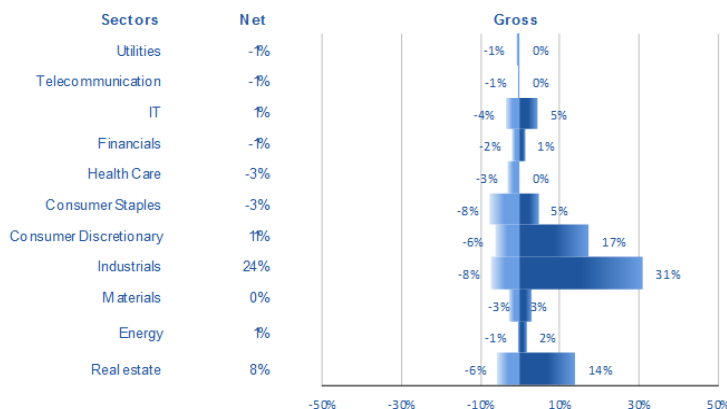
With regards to sector exposure, our bottom-up process resulted in a close-to-maximum long exposure in Industrials of 24%.

Top Gainers & Losers

Gainers		CTR*	Losers		CTR*
Nishimatsu Const	L	0.4%	H I S	L	-0.2%
Maeda Road Const	L	0.4%	Hitachi Capital	S	-0.1%
Nichirin	L	0.4%	Pola Orbis	L	-0.1%
Toshiba Machine	L	0.3%	IDOM	L	-0.1%
Ichigo Group	L	0.3%	Terumo Corp	S	-0.1%

*CTR = Contribution

Source: Factset

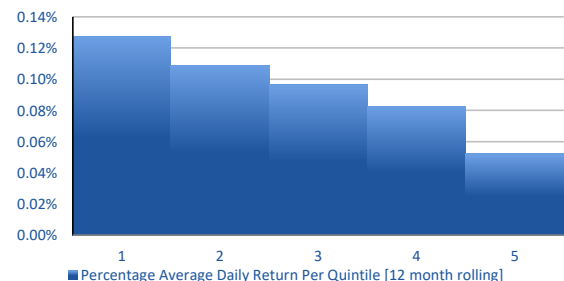


Source: UBS PAS

Value Factor Performance*

	P/E	EV/EBITDA	P/B	Div Yld	EV/IC	FCF
MoM	2%	1%	2%	1%	1%	-1%
YoY	16%	10%	20%	10%	10%	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.

Surprisingly the value rally accelerated in September. With a lack of stock specific news after the earnings season and limited macro flows the market behaved rather systematic.

Our proprietary model performed well in September although intra-month style factor volatility has picked up significantly. The value factor, which is an important benchmark for our stock-picking capability, performed well +1.68%, however most of the contribution occurred in the last third of the month. Price-to-Earnings (P/E) and Price-to-Book (P/B) performed best. In addition, 12-month price momentum performed well again. Value and price momentum being positively correlated is the exception and bodes well for future returns.

The weighted average P/B of the long book was 1.5x compared to 1.9x for the short book. Price momentum exposure continued to be very high. On a 9-month basis, the long book's price momentum was +24% and the short book's price momentum was down -1%.

The P/E of the long book increased from last month's 16.7x to 16.8x which compares to 23.3x for the short book. The EV/EBITDA of the long book stood at 8.2 x compared to 10.6x for the short book. The dividend yield of the long book is 2.3% and 1.9% for the short book.

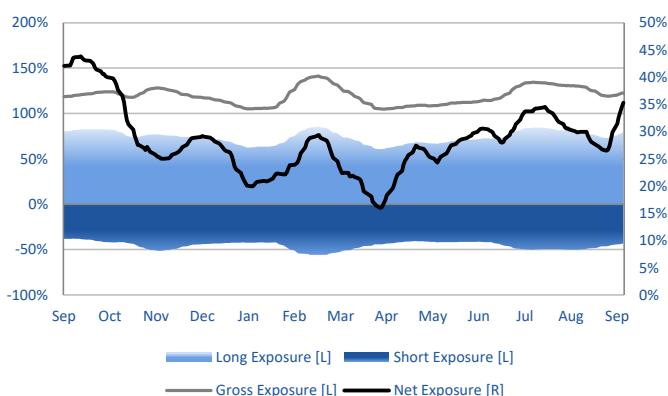
The CFROI's in the long book are higher by 0.8% despite the fact that our long holdings are almost debt free and the cash-to-market value amounts to 35%.

Risk Measurement and Management

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

From April into mid-summer we increased the risk budget as our style was rewarded and with that, net as well as gross exposure expanded. With some volatility during August, several larger long positions hit stop loss and we temporarily took off some risk which we re-introduced once our momentum tools and model were supportive again.

The ex-ante beta stood at 0.32 with an ex-ante volatility of 4.8%. This number is not a good reflection of underlying risk as risk premia globally are extremely depressed. Even the long term volatility measure stands at just 5.8%, 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)	16.8	23.3
EV/EBITDA	8.2	10.6
Price to Book (PB)	1.5	1.9
Dividend Yield	2.3	1.9
EV/IC	1.1	1.5
1 month momentum	5.7	-0.4
6 month momentum	10.5	-0.4
9 month momentum	24.6	-1.1
Earnings momentum (1M)	18.3	16.4
Earnings momentum (3M)	18.2	0.8
CFROI	8.7%	7.9%
Cash/MarketValue	35.3%	16.0%

Source: Factset

Style Exposure

	Long	Short
Beta	0.99	0.90
Volatility	9.9%	9.1%
Debt-to-equity	0%	55%

Source: UBS PAS

Risk Statistics Delta Adjusted

Volatility (ex-ante; 3 months daily data)	4.8%
Volatility (ex-ante; 5yr monthly data)	5.8%
Var (99%, 5 days)	1.0%
Beta (ex-ante)	0.32

Source: GS and Nomura

Outlook

The Japanese equity market has been lagging global developed markets and finally accelerated to catch-up with its stellar fundamentals. Over the past two months interest from global investors for Japanese equities has been gradually improving. Nevertheless, Japan in a relative context is still unliked and heavily underweighted. Global investors are most underweight since 2012 and only recently started to return to the Japanese market. So far in 2017 domestic institutions have bought equities and did so rather broad based, pushing mid- and small-caps to multi-decade highs. We are widely enthusiastic for the coming months. The demand/supply balance is rather favorable and with valuations being inexpensive and earnings momentum rather healthy we are looking forward to a strong earnings season and lots of buyback announcements. Those buybacks will be "oil on fire" as the outstanding stock of available shares rapidly shrinks in an environment of increased demand.

Even better, the shorts are contributing as well, too much momentum money was hiding in the expensive defensives and over the past few months that space was decisively underperforming and will likely continue to do so. Another feature that makes us enthusiastic in the short-term is the fact that statistically value as a style tends to perform very well in the November to April time frame. The origin and causality of that seasonality is debatable but nevertheless highly significant, and ties in perfectly to the global macro situation. With the US central bank on a trajectory of normalization, longer dated bond yields are in the process of re-pricing higher as US demand diminishes and supply from the fiscal side most likely will increase. That is and will be the most important driver for a continuation of the Japanese equity market higher. Japanese equities are in the process of transitioning out of a deflationary environment and continue to be highly correlated with inflation proxies such as US government yields.

Pelargos Japan Alpha Fund

September 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%				1.20%
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%				1.59%
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

Company Facts

Firm AUM in EUR	€ 235,991,532
Firm AUM in USD	\$279,034,079

Portfolio Managers

Richard Dingemans
Michael Kretschmer

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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Fund Facts

Fund Size in EUR	€ 97,316,066
Fund Size in USD	\$115,065,565
Participations Outstanding Class A	236
Participations Outstanding Class B	56,173
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

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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