Pelargos Japan Alpha Fund

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2016

AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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FUND INFORMATION

REGISTERED OFFICE	WTC, E-Tower, 7th Floor Prinses Margrietplantsoen 43 2595 AM The Hague The Netherlands www.pelargoscapital.com
MANAGER	Pelargos Capital B.V. WTC, E-Tower, 7th Floor Prinses Margrietplantsoen 43 2595 AM The Hague The Netherlands
DEPOSITARY	The Bank of New York Mellon SA/NV WTC Building, Podium Office, B-Tower Strawinskylaan 337 1077 XX Amsterdam The Netherlands
TITLE HOLDER	Stichting Pelargos Japan Alpha Fund c/o: SGG Custody B.V. Amerika Building Hoogoorddreef 15 1101 BA Amsterdam The Netherlands
ADMINISTRATOR	The Bank of New York Mellon SA/NV WTC Building, Podium Office, B-Tower Strawinskylaan 337 1077 XX Amsterdam The Netherlands
PRIME BROKERS	UBS AG 1 Finsbury Avenue London EC2M 2PP United Kingdom Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB United Kingdom Nomura International plc 1 Angel Lane London EC4R 3AB United Kingdom
LEGAL ADVISOR	De Brauw Blackstone Westbroek N.V. Claude Debussylaan 80 1082 MD Amsterdam The Netherlands
EXTERNAL COMPLIANCE OFFICER	CLCS B.V.* Keizersgracht 433 1017 DJ Amsterdam The Netherlands
INDEPENDENT AUDITOR	PricewaterhouseCoopers Accountants N.V. Fascinatio Boulevard 350 3065 WB Rotterdam The Netherlands
FINANCIAL REPORTING TO DNB	Solutional Financial Reporting B.V. Arentsburghlaan 3 2275 TT Voorburg The Netherlands

CLCS B.V. was the external compliance officer until 28 July 2016.

FUND PROFILE

Pelargos Japan Alpha Fund
The Pelargos Japan Alpha Fund (the "Fund") is an open-ended investment fund. Issue and redemption of units of participation is possible as per instruction of the participant as described in the Prospectus. Date of commencement of the Net Asset Value ("NAV") calculation was 10 July 2008.

Key Features Document ("Essentiële Beleggersinformatie") and Prospectus
The Fund's Key Features Document applies containing Fund information related to its costs and risks. The Key Features Document and Prospectus are available on www.pelargoscapital.com.

Investment objective
The Fund's objective is to achieve capital appreciation through investing in long and short positions in equities related to Japanese enterprises. The Fund seeks to limit the downward risk and aims for returns that have a low correlation with the returns of the market index. To achieve the Fund's objective, the Manager may use leverage. Potentially increasing the return of the Fund through derivative positions and securities borrowing as well as increasing the exposure of the Fund by borrowing cash are regarded as leveraging techniques.

Dividend
In principle the Fund does not pay dividends. The Manager is, however, authorised to pay part of the profit available for distribution to the participants.

Manager
Pelargos Capital B.V. (the "Manager") is the Manager of the Fund and as such is responsible for determining and implementing the investment policy. Pelargos Capital B.V. is registered at The Netherlands Authority of the Financial Markets (AFM). The Pelargos Japan Alpha Fund does not employ any personnel, as all services are provided by the Manager.

The Manager was incorporated on 4 March, 2008 and has its registered office in The Hague. The directors of the Manager are Orange Dragon Company B.V. (represented by R.A. (Richard) Dingemans and P.P.J. (Patrick) van de Laar).

Depositary
The Manager has appointed The Bank of New York Mellon SA/NV in Amsterdam, trading as The Bank of New York Mellon SA/NV Amsterdam Branch, as Depositary of the Fund.

Stichting Pelargos Japan Alpha Fund ("Stichting") is the legal owner of the assets of the Fund. The Manager of the "Stichting" is SGG Custody B.V.

Administrator
The Bank of New York Mellon SA/NV, Amsterdam Branch, is the administrator of the Fund, certain administration services are being outsourced to BNY Mellon Fund Services (Ireland) Designated Activity Company (DAC) in Dublin, Ireland. The administrator was incorporated under Irish law on 31 May 1994 and is registered under number 218007 with the Companies Registration Office in Ireland. Furthermore, certain services in relation to transfer agency are being outsourced to The Bank of New York Mellon (Luxembourg) S.A.

Prime Brokers
The Prime Brokers (the "Prime Brokers") of the Fund are Goldman Sachs International, UBS AG and Nomura International plc.

SUMMARY OF FINANCIAL INFORMATION

	2016	2015	2014	2013	2012
	€ '000	**€ '000**	**€ '000**	**€ '000**	**€ '000**
Class A (€)	18	29	(12)	71	36
Class B (€)	5,223	8,944	(4,241)	26,109	13,077
Class A (¥)	-	12	(2)	15	-
Class A ($)	-	13	(3)	16	-
Income/(loss)	**5,241**	**8,998**	**(4,258)**	**26,211**	**13,113**
Class A (€)	(12)	(12)	(9)	(17)	(14)
Class B (€)	(3,274)	(3,185)	(3,407)	(6,140)	(3,516)
Class A (¥)	-	(2)	(2)	(4)	-
Class A ($)	-	(3)	(2)	(4)	-
Expenses and withholding taxes	**(3,286)**	**(3,202)**	**(3,421)**	**(6,165)**	**(3,530)**
Class A (€)	6	17	(21)	54	22
Class B (€)	1,949	5,759	(7,649)	19,969	9,561
Class A (¥)	-	10	(4)	11	-
Class A ($)	-	10	(5)	12	-
Increase/(decrease)	**1,955**	**5,796**	**(7,679)**	**20,046**	**9,583**
Net assets (€ '000)	**93,585**	**90,623**	**110,123**	**117,795**	**97,530**
Number of units of participation					
Class A (€)	236.27	236.27	236.27	236.27	236.02
Class B (€)	59,944.95	59,246.86	76,538.46	76,533.77	76,492.23
Class A (¥)	-	-	100.00	100.00	-
Class A ($)	-	-	100.00	100.00	-
Net asset value per unit of participation					
Class A (€)	1,360.27	1,336.48	1,263.10	1,358.08	1,142.61
Class B (€)	1,555.82	1,524.25	1,433.06	1,533.07	1,271.51
Class A (¥)	-	-	92,258.68	100,346.19	-
Class A ($)	-	-	930.26	1,004.33	-
Performance					
Class A (€) (in %)	1.78	5.81	(6.99)	18.86	10.24
Class B (€) (in %)	2.07	6.36	(6.52)	20.57	10.95
Class A (¥) (in %)	-	4.92	(8.06)	0.35	-
Class A ($) (in %)	-	4.91	(7.38)	0.43	-
Ongoing Charges Figure (in %)					
Class A (EUR) (in %)	1.71	1.76	1.69	1.62	1.63
Class B (in %)	1.21	1.26	1.19	1.12	1.13
Class A (JPY) (in %)	-	1.76	1.69	1.62	-
Class A (USD) (in %)	-	1.76	1.69	1.62	-

MANAGER'S REPORT

For the year ended 31 December 2016

Performance

2016	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Class A	1.35%	0.88%	1.08%	-0.20%	-1.03%	-4.52%	2.08%	-1.09%	-0.33%	2.38%	0.99%	0.38%	**1.78%**
Class B	1.27%	0.92%	1.18%	-0.19%	-1.06%	-4.33%	2.12%	-1.05%	-0.29%	2.38%	0.88%	0.39%	**2.07%**

In 2016, the Pelargos Japan Alpha Fund returned 1.78% for the class A EUR and 2.07% for the class B EUR shares. This brought the inception-to-date performance of class B shares to 55.6%, which translates into an annualised net return of 5.3%, with a realised volatility of 7.2%. The MSCI Japan lost 2.6% over 2016 and is up 11.7% since the inception of the Fund, with a realised volatility of 20.1%.

The Fund size increased to €93.6mln, mainly as a result of performance, but also due to a rebalancing at our cornerstone investor, Aegon, which increased its equity investments due to client asset allocation shifts.

Market review

The Japanese equity market bottomed in June 2012 and rallied 146% over three years and topped out in August 2015. The policy-induced Abenomics bull market abruptly ended in the summer of 2015 and a vicious bear market ensued. From the peak, the market corrected 30% into the early-summer lows of 2016, which translated into a 23% year-to-date (YtD) decline into the late June lows. The sharp drop in Japanese equities was due to the sharp appreciation of the Japanese Yen (JPY). Preceding this year's JPY strength the Bank of Japan's engineered, through aggressive balance sheet expansion in the form of so-called quantitative easing, a weaker currency especially against the US dollar. This dynamic swiftly reversed once the US dollar strength reached the tipping point of sharply lower commodity prices and contracting global liquidity. The ensuing risk-off environment had global carry trades unwind and Japanese investors repatriate overseas assets and thereby leading to strong demand for JPY. Years of carefully designed market intervention to engineer a wealth-effect and perceived reflation reversed in a few months and the market ended the first half of 2016 significantly lower, reaching the support levels of 2013. The heavy losses in risk assets re-introduced deflationary tendencies; as such inflation expectations sharply declined and Japanese bonds rallied further, pushing 10-year yields into negative territory. Earnings were revised down sharply and imports as well as exports contracted abruptly.

Global growth over 2016 remained fairly lackluster, as the global economy continued to suffer from excessive debt overhang, which only can be serviced by central banks suppressing bond yields. Therefore, global equity markets welcomed the news that the US Fed's would slow the pace of interest rate hikes in 2016 and introduce data dependency. This boosted equity market sentiment, which was further supported by better than expected economic data from China. As a result, global growth picked up in the second half of 2016, despite increasing political event risk due to the Brexit vote and the US Presidential elections. The impact of these events on equity markets turned out to be short-lived. Investors quickly focused on improving macro-economic fundamentals and reversed the risk-off trades that dominated the markets earlier in the year.

Cyclical sectors such as Energy, Materials and Industrials gained 3% to 5% for the year, thereby strongly outperforming defensive sectors such as Health Care, Consumer Staples and Utilities that lost between 9% to 12%. Value factor returns typically correlate strongly with cyclical sectors and value strongly outperformed growth over 2016.

Investment policy

In terms of positioning we started the year with extremely cautious positioning. Our analysis led us to belief that the Japanese market was just trading at fair value. There was not sufficient recognition of the impact of a global growth slowdown, the weak US economy and the drain of US dollar liquidity due to the collapse in commodity prices. The Japanese market corrected 7.5% in January followed by another 9.4% drop in February. The value factor showed disastrous returns, although highly tilted towards the financial sector.

The BOJ's panic action of introducing negative rates led to a collapse in already cheap bank stocks and more expensive REITs massively outperformed the sharply falling bank index. We were well positioned for such a scenario and the Class B shares appreciated 1.27% in January and 0.92% in February. We had effective hedges in place and managed the macro volatility well. The March fiscal year-end rally enabled us to make another 1.18%, thus in the first quarter of 2016 the B Class appreciated 3.41% whilst the market had dropped 13.4%.

Despite the bounce in risk assets, the value factor showed little improvement and expensive defensives with high price momentum and strong earnings revisions continued to outperform. The value factor continued to struggle into early July. In June the value factor had one of its worst months on record and suffered one of the largest drawdowns. In the June panic the market dropped another 9.7%. The forced selling of value stocks and macro driven jump in correlations, made it difficult to effectively hedge and preserve capital. The Class B shares declined 5.52% in the second quarter and June marked the worst monthly return since the inception of our Fund, -4.33%. As the Fund's value style exposure was ineffective, we continued to reduce the gross exposure of the Fund. In early 2016 the gross exposure reached a peak of 180%, by July 2016 this had dropped to 127%. After the wash-out in value stocks in mid-July, the value style factor rebounded strongly, driven by a mix of sectors such as banks, shipping, steel and energy. Class B shares rebounded in July and gained 2.12%, followed by some consolidation in August and September. From October onwards, global equity markets benefitted from a pick-up in economic growth, which translated in further outperformance of cyclical sectors and hence value stocks. Stock selection in these sectors contributed to performance of the Fund and Class B shares gained 3.69% in the last quarter to end the year up 2.07%.

MANAGER'S REPORT (CONTINUED)

For the year ended 31 December 2016

Investment policy (continued)

The net exposure might be perceived to be high, peaking at over 50% earlier in the year. However, the long book has a strong bias towards low beta stocks, and as a result the ex-ante volatility based on our short-term risk model remained in the 4.7% - 8.2% range, the beta remained in a 0.02 - 0.38 range.

The five largest positive contributors on a single stock level were, in increasing order all long positions: Pola Orbis, Sumitomo Metal Mining, Ube Industries, Hitachi High Technologies and Sumco.

The five largest negative contributors were, surprisingly, all long positions as well. This is the result of our strict risk management policies, where stop losses are applied to preserve capital.

The extreme sell-off in June and into early July, when the market dropped over 10% in a few weeks in combination with significant value factor underperformance, proved to be a very challenging environment for our investment strategy. Despite having de-risked the portfolio during Q2, the fund suffered its largest drawdown since its inception in 2008. In such an environment we keep reducing portfolio risk, which has helped us preserve capital in the past. This year we locked in some losses in long positions which made it to the top 5: Seven&I Holdings, Acom, Honda Motor, Chiyoda and Kaneka Corp.

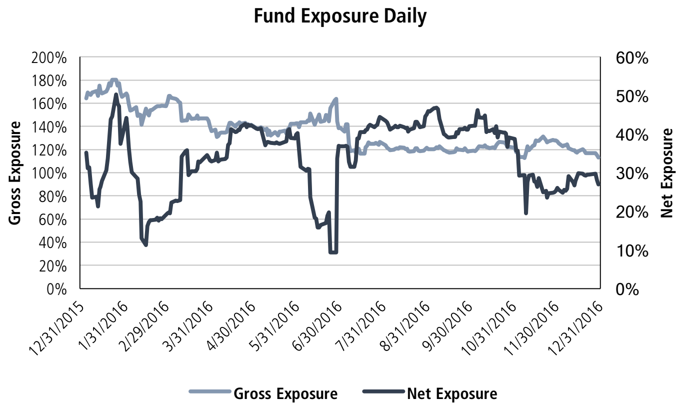
As of 31 December 2016 the Fund's net and gross exposures (including derivatives) were 25.9% and 114.1%, respectively. Table 1 and Graph 1 below present key statistics with respect to exposure management. Over 2016, the net exposure in the Fund was in the range of 9% - 50%, with an average net exposure of 34%. Over the same period, the gross exposure in the Fund was in the range of 113% - 180%, with an average gross exposure of 136%. Graph 1 shows how the net and gross exposure evolved throughout 2016. The ex-ante beta of the Fund remained in a range of -0.01 to 0.38, averaging 0.19 for the year.

Table 1. Net- and gross exposure and ex-ante beta of the Fund in 2016

	High	Low	Average	31 December 2016
Net exposure	50%	9%	34%	27%
Gross exposure	180%	113%	136%	113%
Ex-ante beta *	0.38	-0.01	0.15	0.19

* ex-ante beta from TradeSpex

Graph1. Pelargos Japan Alpha Fund exposure on a daily basis in 2016.



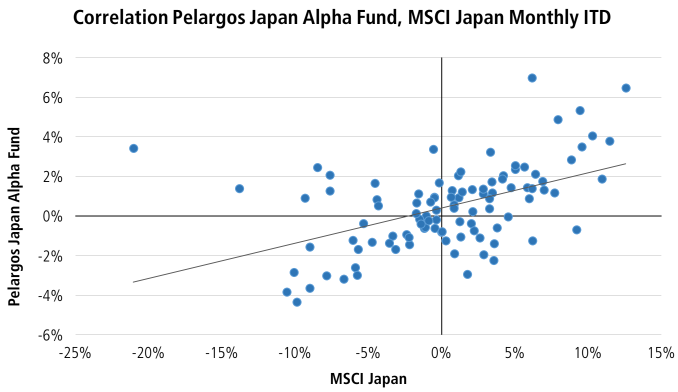
The correlation of the fund with the MSCI Japan Index was 0.27 for 2016 and 0.47 since inception, both based on daily return data.

Table 2. Realised volatility, beta and correlation of Fund and MSCI Japan Index (daily return data)

Year	Volatility Fund	Volatility Benchmark	Ex-post Beta Fund	Correlation Fund, Benchmark
ITD	6.9%	24.7%	0.13	0.47
2016	6.4%	26.6%	0.07	0.27

Graph 2 shows the correlation of the Fund's monthly returns with the MSCI Japan Index since inception. The Fund's correlation with the market has increased over the past few years. With very low valuation, risk/reward proposition for long positions became extremely attractive. In order to capture these highly attractive asymmetric pay-off structures, we implemented a barbell approach by being substantially long very inexpensive single stock exposure and having down side protection in place to hedge tail-risk events.

Graph 2. Correlation of the Fund and MSCI Japan Index since inception.



MANAGER'S REPORT (CONTINUED)

For the year ended 31 December 2016

Outlook

The cyclical bear market from August 2015 into July 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 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 normalise 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. 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.

Cyclical value had a great run since the summer last year and the mispricing of cyclicals relative to defensives has corrected to some extent. In our opinion there is more to go. Because expensive, low-volatility stocks are highly correlated to bond yields, volatility in that space has returned with a vengeance. Investors realise that paying too high a price and herding into the low-volatility themes has introduced heightened risk. And indeed, for the past few months, the realised volatility of low-volatility stocks surpassed the volatility of the overall market. We consider the discrepancy between prices and value our guiding principle in how to think about risk. We are looking forward to further de-rating of this market segment. Maybe this will be a good hunting ground for longs in the second half of 2017 when investors finally throw in the towel on their 'search-for-yield' and much loved low volatility positioning. 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.

Risk management

We have devised a prudent risk management framework that is appropriate to the nature, scope and complexity of the activities deployed. Where relevant and possible the proportionality principle is applied when implementing applicable laws and regulations with regards to hierarchical and functional separation between risk management and other functions within Pelargos Capital B.V., establishing and managing risk limits as well as regards risk measurement and risk management.

In Compliance, Directors and Portfolio Management meetings, risks are reviewed, identified and previously identified risks are monitored.

Risk management is considered an integral part of the investment and the operational process. Risk management supports decision making in order to minimise unexpected losses and achieve the absolute return objective. Financial risk management encompasses all elements of our investment process from idea generation, implementation of trades, performance measurement, reporting and attribution analysis. A number of risk management systems allow us to notice any deviations to intended positioning and targets. The portfolio managers are continuously monitoring financial risks. In addition, the investment guidelines as described in the prospectus are monitored by the risk manager at least twice a month.

Operational risk management recognises the four areas of potential losses; processes, systems, people and external events. With these sources of risk in mind, processes and controls are developed, documented and monitored by the risk manager.

Exposures to markets, currencies or countries are described in Note 11 of the financial statement. The most important risks are described below; a more extensive list of risks is described in the Prospectus.

Risks

Volatility of securities held

Many factors can affect the market value of the securities invested by the Fund. Not only can factors inherent to the pertinent issuing company or the sector in which it operates influence that value; geopolitical, national developments and macro-economic factors may have an effect.

The performance of the Fund largely depends on the decisions that the Manager takes as part of the investment process, leading from identification to the implementation of investment opportunities. Investments may be geared towards an expected upswing or downswing in the value of a security; if the security moves adversely, the value of the Fund may be negatively affected.

Market risk is mitigated by the allocation of appropriate capital resources, which are determined on the basis of stress testing, sensitivity testing and modelling. Concentration risk is mitigated by diversification and an adequate number of holdings in the portfolio. The liquidity policy is aimed at maintaining assets in such proportion that it will at all times enable the manager to meet its liabilities as they arise.

Short selling

The Fund may sell equities with the purpose of buying them back later. These are borrowed, as the Fund does not hold those equities. The cost for borrowing varies and influences the return realised on the pertinent position. Conceivably, borrowed equities may need to be returned to the lender at an earlier than expected date. The value of the borrowed amount is limited to a maximum of 175% of the Net Asset Value of all (Sub) Classes of Participations.

Loans

Loans provided by the prime brokers enable the fund to enhance its

MANAGER'S REPORT (CONTINUED)

For the year ended 31 December 2016

Risk management (continued)

gross exposure. This increases the Fund's risk profile in terms of price volatility and interest rate volatility. Theoretically, holdings purchased with borrowed funds could drop to a value that is less than the amount borrowed. The value of the loan amount is limited to a maximum of 250% of the Net Asset Value of all (Sub) Classes of Participations.

Counterparty risk

The Fund is susceptible to the risk of counterparties of the Fund defaulting on their obligations as a result of inter alia a moratorium of payment or involuntarily liquidation.

Such counterparties include the Prime Brokers. A Prime Broker is entitled to pledge assets of the Fund to third parties to secure financing to the Fund (rehypothecation). In case of involuntary liquidation of the Prime Broker, the Fund ranks as a general creditor in respect to the value of the rehypothecated assets, with the risk that this value may not be reclaimed. The amount of rehypothecation of long assets is limited to 140% of the net indebtness of the Fund.

The risk manager is monitoring periodically this limit independently from the portfolio managers.

Derivatives

The Fund may utilise investment instruments such as exchange-traded futures, OTC options and other derivative contracts. Depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or loss that is high in proportion to the amounts of the funds actually placed as initial margin or premium paid. Because OTC transactions are not executed via an exchange, pricing may be less transparent. Additionally, OTC transactions may involve counterparty risk with respect to the unrealised profit value within the contract. Liabilities or receivables following from the OTC CFD contracts are taken into account in the overall margin requirement calculation which takes the total exposure into account. Thus, when positive unrealised results under the CFD contract leads to a receivable, no specific collateral for that purpose is to be received but it will increase the equity part in the margin calculation.

Other information

We have assessed several aspects of operational management throughout the past financial year. We have noticed nothing in our assessments that would lead us to conclude that the description of the structural aspects of operational management within the meaning of article 121 of the Bgfo failed to meet the requirements as specified in the Wft and related regulations. Based on these findings we, as Manager of the Fund, declare that Pelargos has established a governance framework that meets the requirements of the Dutch Financial Supervision Act [Wet op het financieel toezicht, 'Wft'] and the Dutch Market Conduct Supervision of Financial Enterprises Decree [Besluit gedragstoezicht financiële ondernemingen, 'Bgfo']. We therefore declare with reasonable assurance that operational management has been effective and has functioned as described throughout the reporting year. The framework includes the separation of managerial, execution and oversight functions, and relates to the firms' strategy, conduct of business standards, investment portfolio risks, financial risks and operational risks. Risk management is considered an integral part of the investment and the operational process. Systems and procedures are in place for risk inventory and evaluation, to define risk mitigating measures and to monitor the working of those measures.

Personnel

The Fund does not employ any personnel and will not employ any personnel for the foreseeable future.

Investment

The Fund aims to achieve capital appreciation through investing in long and short positions in equities related to Japanese enterprises. The Fund seeks to limit the downward risk while keeping correlation with the returns of relevant market indices low. (Please note that the value of the investments may fluctuate. Past performance is not necessarily a guide to future performance. The value of the product is (among others) subordinated to the developments on financial markets and, if applicable, other markets.)

The Hague, 25 April 2017

R.A. Dingemans,
on behalf of Orange Dragon Company B.V.
Director Pelargos Capital B.V.

P.P.J. van de Laar,
Director Pelargos Capital B.V.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 €	2015 €
Current assets			
Financial assets at fair value through profit or loss	3,11	65,510,477	73,614,826
Amounts due from brokers	6	2,539,423	2,735,020
Dividends receivable		170,399	162,144
Margin accounts	5	24,494,300	30,234,085
Cash and cash equivalents	4	42,186,173	27,399,657
Total current assets		**134,900,772**	**134,145,732**
Current liabilities			
Financial liabilities at fair value through profit or loss	3,11	40,278,204	42,409,219
Amounts due to brokers	6	446,303	864,981
Dividends payable		123,473	55,731
Subscriptions received in advance	2,18	20,000	-
Management fee payable	7	79,674	77,167
Performance fee payable	7	241,109	-
Interest payable		2,470	2,574
Accrued expenses	8	124,752	113,336
Total current liabilities (excluding net assets attributable to holders of redeemable units of participation)		**41,315,985**	**43,523,008**
Net assets attributable to holders of redeemable units of participation		**93,584,787**	**90,622,724**

Class A - Euro	**31 December 2016**	**31 December 2015**	**31 December 2014**
Number of units of participation (Note 13)	236.27	236.27	236.27
Net asset value per unit of participation	€ 1,360.27	€ 1,336.48	€ 1,263.10
Class B - Euro			
Number of units of participation (Note 13)	59,944.95	59,246.86	76,538.46
Net asset value per unit of participation	€ 1,555.82	€ 1,524.25	€ 1,433.06
Class A – Japanese Yen			
Number of units of participation (Note 13)	-	-	100.00
Net asset value per unit of participation	-	-	¥92,258.68
Class A – US Dollar			
Number of units of participation (Note 13)	-	-	100.00
Net asset value per unit of participation	-	-	$930.26
Total Net Asset Value	**€ 93,584,787**	**€ 90,622,724**	**€ 110,123,102**

The accompanying notes form an integral part of these condensed financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016	2015
		€	€
Investment income			
Interest income	9	-	34,193
Gross dividend income	10	1,928,196	2,029,021
Net gain on financial assets and liabilities at fair value through profit or loss	3	5,361,458	10,953,386
Net foreign exchange loss		(2,055,107)	(4,069,413)
Other income		6,307	51,009
Total income		**5,240,854**	**8,998,196**
Operating expenses			
Dividend expense on securities sold short	10	(753,901)	(790,896)
Performance fees	7	(247,524)	(7,288)
Management fee	7	(914,172)	(941,701)
Interest expense and borrowing fee	9	(913,224)	(971,512)
Audit fee	7	(30,500)	(62,935)
Administration fee	7	(94,650)	(91,773)
Depositary fee	7	(32,990)	(43,573)
Legal fee	7	(5,000)	(18,000)
Costs of supervision	7	(16,000)	(12,000)
Trustee's fee	7	(11,150)	(13,550)
Other expenses	7	(18,923)	(18,636)
Total operating expenses		**(3,038,034)**	**(2,971,864)**
Profit before taxation		**2,202,820**	**6,026,332**
Withholding taxes		(248,379)	(230,178)
Profit after taxation		**1,954,441**	**5,796,154**
Other comprehensive income		-	-
Increase attributable to holders of redeemable units of participation		**1,954,441**	**5,796,154**

The accompanying notes form an integral part of these condensed financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016	2015
	€	€
Cash flows from operating activities		
Increase attributable to holders of redeemable units of participation	1,954,441	5,796,154
Adjustment for net foreign exchange loss - cash and cash equivalent	2,055,107	4,069,413
Adjustment for interest income	-	(34,193)
Adjustment for dividend income	(1,928,196)	(2,029,021)
Adjustment for interest expense	913,224	971,512
Adjustment for dividend expense	753,901	790,896
Adjustments to reconcile increase/(decrease) attributable to holders of redeemable units of participation to net cash provided by operating activities:		
Decrease in financial assets at fair value through profit or loss	8,104,349	8,548,199
(Decrease)/increase in financial liabilities at fair value though profit or loss	(2,131,015)	8,587,258
Decrease/(increase) in margin cash	5,739,785	(624,224)
Increase/(decrease) in management fee payable	2,507	(22,686)
Increase in performance fee payable	241,109	-
(Decrease) in amounts due to brokers	(418,678)	(39,446)
Decrease/(increase) in amounts due from brokers	195,597	(692,041)
Increase in accrued expenses	11,416	53,586
Cash provided by operating activities	**15,493,547**	**25,375,407**
Interest received	-	34,291
Dividend received	1,919,941	2,150,903
Interest paid	(913,328)	(979,412)
Dividend paid	(686,159)	(934,913)
Net cash provided by operating activities	**15,814,001**	**25,646,276**
Cash flows from financing activities		
Proceeds from issue of redeemable units of participation	3,262,100	3,000
Payments from redemptions of redeemable units of participation	(2,242,600)	(25,299,525)
Cash flow related to equalisation credit/deficit previous year	(11,878)	(7)
Increase in subscriptions received in advance	20,000	-
Net cash flow provided by/ (used in) financing activites	**1,027,622**	**(25,296,532)**
Net increase in cash and cash equivalents	16,841,623	349,744
Net foreign exchange loss - cash and cash equivalents	(2,055,107)	(4,069,413)
Cash and cash equivalents at the beginning of the year	27,399,657	31,119,326
Cash and cash equivalents at the end of the year	**42,186,173**	**27,399,657**

The accompanying notes form an integral part of these condensed financial statements.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS OF PARTICIPATION

For the year ended 31 December 2016

	Note	Number of shares	2016
			€
Balance at the beginning of the year		**59,483**	**90,622,724**
Increase attributable to holders of redeemable units of participation resulting from operations for the year		-	1,954,441
Issue of redeemable units of participation during the year	13	2,145	3,262,100
Proceeds from redeemable units of participation during the year	13	(1,439)	(2,242,600)
Redemption related to equalisation deficit previous year		(8)	(11,878)
Net assets attributable to holders of redeemable units of participation at the end of the year		**60,181**	**93,584,787**

	Note	Number of shares	2015
			€
Balance at the beginning of the year		**76,975**	**110,123,102**
Decrease attributable to holders of redeemable units of participation resulting from operations for the year		-	5,796,154
Issue of redeemable units of participation during the year	13	2	3,000
Proceeds from redeemable units of participation during the year		(17,494)	(25,299,525)
Redemption related to equalisation credit previous year	13	-	(7)
Net assets attributable to holders of redeemable units of participation at the end of the year		**59,483**	**90,622,724**

The accompanying notes form an integral part of these condensed financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. FUND INFORMATION

General

The Pelargos Japan Alpha Fund (the "Fund") is an open-ended investment fund incorporated on 19 June 2008. The first trade date for Class B (Euro) units of participation was on trade date 11 July 2008. Initial subscriptions for Class A (Euro) units of participation were received on trade date 27 January 2009. The Fund is not listed on any stock exchange. The units of participation are registered per investor.

The Fund will, under certain conditions, be able to issue and purchase units of participation. Issue and redemption of units of participation is possible on a dealing date, which is the first business day of each month. The Manager holds the right to suspend redemptions in case of extreme market circumstances, when effectuating the lock up on Class B units of participation or in case of a significant size of the redeemed amount. The right to suspend redemptions is explained in more detail in the Prospectus of the Fund.

The Fund is a Fund for Joint Account, which means that there is a contractual obligation among the Manager, the Title Holder and the Participant. The Manager has an Alternative Investment Fund Managers Directive (AIFMD) license and is regulated by the Netherlands Authority for the Financial Markets (AFM) and the Dutch Central Bank.

The Bank of New York Mellon SA/NV, Amsterdam branch, provides administration and transfer agency services to the Fund. Certain administration services are being outsourced to BNY Mellon Fund Services (Ireland) DAC in Dublin, Ireland. BNY Mellon Fund Services (Ireland) DAC is a licensed entity, authorised and regulated by the Central Bank of Ireland. Furthermore, certain services in relation to transfer agency are being outsourced to The Bank of New York Mellon (Luxembourg) S.A.

The Fund's objective is to achieve capital appreciation through investing in long and short positions in equities related to Japanese enterprises. The Fund seeks to limit the downward risk and aims for returns that have a low correlation with the returns of the market index. To achieve the Fund's objective, the Manager may use leverage. Potentially increasing the return of the Fund through derivative positions and securities borrowing as well as increasing the exposure of the Fund by borrowing cash are regarded as leveraging techniques. The Fund may use leverage to achieve the return targets or for liquidity reasons in case units of participation are redeemed. Assets will predominantly be invested in Japanese securities.

Classes of participations

The assets of the Fund are divided into several classes of participation, with a specific fee structure, and if applicable lock-up period, for each class of participation. The underlying investments and risk profile of the various classes of participation are identical. Each class of participation may be further segmented in subclasses of participation, each such subclass of participation to be denominated in a different currency.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and the Dutch Financial Supervision Act and Title 9 book 2 Dutch Civil Code.

(b) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for financial instruments classified at fair value through profit or loss which have been measured at fair value. All accounting policies adopted by the Fund are consistent with the audited financial statements for the year ended 31 December 2015.

The financial statements are presented in Euro.

The preparation of financial statements in conformity with IFRS, as adopted by the EU, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Manager believes that the estimates utilised in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

The Fund's functional and presentation currency is the Euro. As most holders of units of participation, the Manager and the Title Holder are based and operate in Euro markets, the Fund's performance is evaluated and its liquidity is managed in Euros.

There are no standards and amendments to existing standards that are effective for the first time for the financial period beginning 1 January 2016 that have a material impact on the Fund.

New standards, amendments and interpretations effective after 1 January 2016 and have not yet been early adopted by the Fund.

The below mentioned standards, amendments to standards and interpretations in issue are not yet effective, and have not been applied in preparing these financial statements. Management is currently assessing the possible impact of these new standards and interpretations.

IFRS 9 Financial Instruments (effective date 1 January 2018)

IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and Measurement with a single model that has initially only two classification categories: amortised cost and fair value. Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.

All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option entities will need to recognise the part of the fair value change that is due to changes in the their own credit risk in other comprehensive income rather than profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Basis of preparation (continued)
The new hedge accounting rules (released in December 2013) align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

In December 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete.

The Fund will assess the impact on the financial statements prior to the effective date.

IFRS 15 Revenue from contracts with customers (effective 1 January 2018)
The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:
(i) identify contracts with customers
(ii) identify the separate performance obligation
(iii) determine the transaction price of the contract
(iv) allocate the transaction price to each of the separate performance obligations, and
(v) recognise the revenue as each performance obligation is satisfied.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures. The Fund will assess the impact on the financial statements prior to the effective date.

(c) Financial instruments
Financial assets and liabilities at fair value through profit or loss
The category of financial assets and liabilities at fair value through profit or loss are categorised as financial assets and liabilities held for trading. These include equities, options, contracts for difference ("CFD"), futures, forward foreign currency contracts and liabilities from short sales of financial instruments.

These instruments are acquired or incurred principally for the purpose of generating a profit from short-term fluctuation in price. Derivatives are categorised as held for trading, as the Fund does not designate any derivatives as hedges for hedge accounting purposes as described under IAS 39.

Initial measurement
Purchases and sales of financial instruments are accounted for at trade date. Realised gains and losses on disposals of financial instruments are calculated using the first-in-first-out ("FIFO") method. Financial instruments categorised at fair value through profit or losses are measured initially at fair value. Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in net gain or loss on financial assets and liabilities at fair value through profit or loss.

Subsequent measurement
After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments traded in active market is based on their quoted market prices or sourced from a data vendor, at the statement of financial position date without any deduction for estimated future selling costs. Financial asset are priced at their current bid prices, while financial liability are priced at their current offer price. Financial assets are priced at their current bid prices, while financial liabilities are prices at their current offer price.

For all other financial instruments not traded in an active market and if a quoted market price is not available from a data vendor, the fair value of the financial instruments may be estimated by the Manager using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Subsequent changes in the fair value of financial instruments at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

Where the Fund has assets and liabilities with offsetting market risks it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the bid or offer price to the net position as appropriate.

(d) Recognition
The Fund recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

(e) Derecognition
The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition.

The Fund derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expires.

(f) Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realised the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Forward foreign currency contracts
The fair value of open forward foreign currency exchange contracts is calculated as the difference between the contracted rate and the current forward rate that would close out the contract on the Statement of Financial Position date. Gains or losses on open forward foreign currency exchange contracts are included in the Statement of Comprehensive Income.

(h) Contract for difference (CFD)
A CFD is an agreement between two parties to exchange the difference between the opening and closing value of a position in a specific financial instrument, such as quoted securities, index and foreign exchange. The daily changes in contract value are recorded as unrealised gains or losses and the Fund recognises a realised gain or loss when the contract is closed. Unrealised gains and losses on CFDs are recognised through net (loss)/gain on financial assets and liabilities at fair value through profit or loss in the Statement of Comprehensive Income.

(i) Other derivative contracts
For open futures contracts and options, changes in the value of the contract are recognised as unrealised gains or losses by "marking to market" the value of the contract at the Statement of Financial Position date. When the contract is settled, the difference between the proceeds from (or cost of) the closing transactions and the original transaction is recorded in the net gain/(loss) on financial assets and liabilities at fair value through profit or loss in the Statement of Comprehensive Income.

(j) Redeemable units of participation
The Fund currently has two classes of redeemable units of participation in issue, Class A (Euro) units, and Class B (Euro) units, which are redeemable at the participant's option. Class A units differ from Class B units with respect to management fees and performance fees. Redeemable units of participation can be put back to the Fund at any Dealing day for cash equal to a proportionate share of the Fund's net asset value attributable to the share class.

Units of participation are redeemable monthly. The participants of Class B units of participation are not entitled to request the Fund to redeem all or part of their redeemable units of participation during the "lock-up" period of one year from the acceptance of subscriptions.

The redeemable units of participation are carried at the redemption amount that is payable at the Statement of Financial Position date if the holder exercised the right to put the unit of participation back to the Fund.

(k) Subscription and redemption fees
A fee could be charged upon each issue, transfer or redemption of a unit of participation of up to 1.0%. The actual fee charged is set by the Manager, is credited to the Fund and is charged to cover transaction related costs.

(l) Interest income/expense and borrowing fee
Interest income and interest expense are recognised on an accruals basis in line with the contractual terms. The majority of the interest expense in the Statement of Comprehensive Income includes CFD interest, cash interest and borrowing fee. Borrowing fee is paid fee related to stock loan activities.

(m) Expenses
Expenses are recognised in the Statement of Comprehensive Income on an accrual basis accounted in the year that the costs are incurred.

(n) Dividend income and expense
Dividends are credited to the Statement of Comprehensive Income on the dates on which the relevant securities are listed as "ex-dividend". Income is shown gross of any non-recoverable withholding taxes, which is disclosed separately in the Statement of Comprehensive Income, and net of any tax credits. Dividend expense relating to equity securities sold short is recognised when the shareholders' right to receive the payment is established.

(o) Statement of Cash Flows
The Statement of Cash Flows is prepared according to the indirect method. For the purposes of the Statement of Cash Flows, financial instruments at fair value through profit or loss are included under operating activities. Cash flows from financing activities include proceeds from subscriptions and payments for redemptions of shares of the Fund.

(p) Foreign currency translation
Functional and presentation currency
Items included in the Fund's financial statements are measured and presented using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Euro, which reflects the Fund's domicile. The currency of subscriptions into and redemptions out of the Fund is Euro.

Foreign currency transactions
Monetary assets and liabilities denominated in currencies other than Euro are translated into Euro at the closing rates of exchange at each year-end. Transactions during the year, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction. Foreign currency translation gains and losses are included in net foreign exchange gain/(loss) in the Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(q) Cash and cash equivalents
Cash consists of cash at bank and cash equivalents consist of short-term investments available to the Fund with original maturities of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash is held with Goldman Sachs International, UBS AG, Nomura International plc and Bank of New York Mellon SA/NV.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as 'cash and cash equivalents'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(r) Taxation
The Fund is organised as a fund for joint account ("Fonds voor gemene rekening") as defined in article 2 paragraph 2, of the Dutch Corporate Income Tax Act ("CITA") ("Wet op de vennootschapsbelasting 1969") and qualifies as a tax exempt investment fund ("Vrijgestelde Beleggingsinstelling") within the meaning of article 6a, CITA. Consequently, the Fund will be fully exempt from corporate income tax in The Netherlands.

All payments by the Fund under the participations can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

The issuance or transfer of a participation, and payments under a participation, will not be subject to value added tax in the Netherlands.

The subscription, issue, placement, allotment, delivery or transfer of a participation, will not be subject to registration tax, stamp duty or any other similar tax or duty payable in the Netherlands.

In some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income.

The Fund presents the withholding tax separately from the gross investment income in the Statement of Comprehensive Income. For the purpose of the Cash Flow Statement, cash inflows from investments are presented net of withholding taxes, when applicable.

(s) Significant accounting estimates and judgment in applying accounting policies
Application of the accounting policies in the preparation of the Fund financial statements may require the Manager to apply judgment involving assumptions and estimates concerning future results and other developments including the likelihood, timing or amount of future transactions or events.

The Fund has no significant accounting estimates that require complex estimates or significant judgment in applying its accounting policies.

(t) Short sales
The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security. Short sales are classified as financial liabilities at fair value through profit or loss.

(u) Transaction costs
The costs charged by brokers in relation to the purchase or sale of financial instruments form the main component of the cost of a transaction. In addition, transaction-related taxes and duties such as registration tax and stamp duties may apply. Transaction costs incurred with an opening position in equities and CFDs (opening buy in case of a long position or opening sale in case of a short position) are included in the net consideration. Transaction costs incurred with the closing of a position in equities and CFDs (closing sale in case of a long position or closing buy in case of a short position) are included in the net consideration.

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, brokers and dealers. Transaction costs, when incurred, are immediately recognised in net gain or loss on financial assets and liabilities at fair value through profit or loss.

(v) Other expenses
Other expenses are recognized on the Statement of Comprehensive Income on an accruals basis.

(w) Margin accounts
Cash collateral provided by the Fund is identified in the Statement of Financial Position as margin cash and is not included as a component of cash and cash equivalents. Margin accounts represent cash deposits with brokers, transferred as collateral against open futures or other securities.

(x) Amounts due from/(to) brokers
Amounts receivable from and payable to brokers include cash balances with the Fund's Prime Brokers and amounts receivable or payable for securities transactions that have not settled at the year-end. Certain amounts of this cash results from the proceeds of trading securities sold short and may therefore be subject to withdrawal restrictions until such time as the securities are purchased by the Fund. The Fund has also purchased securities on margin and the related margin balances are secured on certain of the Fund's investments in securities.

(y) Other payables and accrued expenses
Expenses payable at year-end and accrued expenses are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

(z) Subscriptions received in advance
Subscriptions received in advance represent accepted subscriptions made during the post statement of financial position period for which payment has been received by the Fund before year-end but for which redeemable units will only be issued in the next financial period. Subscriptions received in advance are initially recognised at fair value and subsequently stated at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2016

3 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Movement schedule investments

	€	€
Equity securities	**2016**	**2015**
Beginning market value 1 January	30,831,687	48,877,701
Purchase	180,603,479	204,955,361
Sale	(191,003,804)	(235,018,774)
Revaluation	4,777,224	12,017,399
Ending market value 31 December	**25,208,586**	**30,831,687**

Forward foreign currency contracts	**2016**	**2015**
Beginning market value 1 January	-	3,366
Purchase	-	-
Settlement of contracts	-	15,248
Revaluation	-	(18,614)
Ending market value 31 December	**-**	**-**

Futures	**2016**	**2015**
Beginning market value 1 January	765	-
Purchase	510,854	-
Settlement of contracts	211,485	(193,592)
Revaluation	(723,104)	194,357
Ending market value 31 December	**-**	**765**

Options	**2016**	**2015**
Beginning market value 1 January	1,194,327	-
Purchase	7,068,171	1,752,419
Sale	(10,316,457)	(1,196,120)
Revaluation	2,077,646	638,028
Ending market value 31 December	**23,687**	**1,194,327**

Contracts for difference	**2016**	**2015**
Beginning market value 1 January	(821,172)	(540,003)
Purchase	(1,400,734)	3,645,134
Sale	2,992,215	(2,040,781)
Revaluation	(770,309)	(1,885,522)
Ending market value 31 December	**-**	**(821,172)**

Total	**2016**	**2015**
Beginning market value 1 January	31,205,607	48,341,064
Purchase	186,781,769	210,352,914
Sale	(198,116,561)	(238,434,019)
Revaluation	5,361,458	10,945,648
Ending market value 31 December	**25,232,273**	**31,205,607**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Movement schedule investments (continued)

Purchase and sale on CFD, options and futures investments reflect only the realised gains and losses of closing transactions. As at 31 December 2016 and 31 December 2015, financial assets and liabilities at fair value through profit or loss were as follows:

Financial assets at fair value through profit or loss:	**2016**	**2015**
	€	**€**
Equity securities	65,486,790	72,247,268
Contracts for difference	-	172,466
Options	23,687	1,194,327
Futures	-	765
Financial assets at fair value through profit or loss	**65,510,477**	**73,614,826**
Financial liabilities at fair value through profit or loss:		
Equity securities	(40,278,204)	(41,415,581)
Contracts for difference	-	(993,638)
Financial liabilities at fair value through profit or loss	**(40,278,204)**	**(42,409,219)**
Total financial assets and financial liabilities at fair value through profit or loss	**25,232,273**	**31,205,607**

In Note 11 risks associated with those financial instruments held are described.

As at 31 December 2016 and 31 December 2015, listed equity securities at fair value through profit or loss are recorded at fair value based on quoted market prices in active markets.

For years ended 31 December 2016 and 2015, the net gains and losses breakdown of net gain or loss on financial assets and liabilities at fair value through profit or loss was as follows:

	2016	**2015**
	€	**€**
Realised gains	29,807,938	31,238,341
Unrealised gains	10,317,694	29,916,866
Realised losses	(23,553,858)	(23,206,497)
Unrealised losses	(11,210,316)	(26,995,324)
Total	**5,361,458**	**10,953,386**

The financial assets and liabilities at fair value through profit or loss are classified under category ‘assets and liabilities at fair value through profit and loss’ under IFRS 7 Financial Instruments - Disclosures. The remaining financial instruments are classified under category ‘loans and receivables’ and ‘other financial liabilities’ under IFRS 7.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

4. CASH AND CASH EQUIVALENTS

Cash represents short-term funds available to the Fund excluding margin requirement.

	2016	2015
	€	€
Cash at broker	42,186,173	27,399,657
Total	**42,186,173**	**27,399,657**

Cash at broker relates to cash balances with the fund's Prime Brokers, excluding margin requirements.

5. MARGIN ACCOUNTS

Margin accounts represent cash deposits with brokers, transferred as collateral against open futures or other securities.

The Prime Brokers calculate the maximum amount to be loaned on the basis of all long and short securities held at the Prime Broker; this is called the total margin requirement. The Fund does not provide individual securities as collateral for each individual short security transaction. The total short position is taken into account in the calculation of margin requirement. The total amount of margin requirements with the Fund's Prime Brokers was €23,934,160 (31 December 2015: €25,893,479) with Goldman Sachs International and €560,140 (31 December 2015: €462,752) with UBS AG and nil (31 December 2015: €3,877,854) with Nomura International plc at 31 December 2016.

	2016	2015
	€	€
Margin accounts	24,494,300	30,234,085
Total	**24,494,300**	**30,234,085**

6. AMOUNTS DUE FROM/(TO) BROKERS

Amounts receivable from and payable to brokers include cash balances with the Fund's Prime Brokers and amounts receivable or payable for securities transactions that have not settled at the year-end. Certain amounts of this cash results from the proceeds of trading securities sold short and may therefore be subject to withdrawal restrictions until such time as the securities are purchased by the Fund. The Fund has also purchased securities on margin and the related margin balances are secured on certain of the Fund's investments in securities.

As at 31 December 2016 and 31 December 2015, the following were held as amounts due to or from brokers:

	2016	2015
	€	€
Balances due from brokers	2,539,423	2,735,020
Balances due to brokers	(446,303)	(864,981)
Net amounts due from brokers	**2,093,120**	**1,870,039**

7. FEES AND EXPENSES

Management fee
The management fee is charged to the Fund and is credited to the Manager. The management fee is levied once a month.

The management fee is set as an annual percentage of 1.5% of the gross asset value (GAV) for Class A units of participation and 1.0% of the GAV for Class B units of participation (before deduction of the accrued performance fee). The management fee is accrued on a monthly basis. The fee is payable, in arrears following the completion and finalization of each month end net asset value. Management fees of €914,172 (31 December 2015: €941,701) were incurred for the year ended 31 December 2016, of which €79,674 (31 December 2015: €77,167) was payable at 31 December 2016.

Performance fee
The performance fee is charged on a unit by unit basis and is credited to the Manager. The performance fee is calculated and accrued for in each net asset calculation as at each month end.

The performance fee is equal to 20% of the annual increase in the net asset value of the capital of Class A units of participation. The performance fee is 15% of the annual increase in the net asset value of the capital of Class B units of participation. The performance fee will be calculated on the basis of an annual period from calendar year-end to calendar year-end. In a year of introduction of a new Class in a specific currency, the performance fee will be based on the period from introduction date to calendar year-end. A high watermark applies. Performance fees of €247,524 (31 December 2015: €7,288) were incurred for the year ended 31 December 2016, of which €241,109 (31 December 2015: €Nil) was payable at 31 December 2016.

Performance fee – equalisation
The performance fee is calculated according to the "equalisation" method, which means that each participant pays a fee that truly corresponds to the increase in value of the units of participation that he/she holds. Participations are subscribed to against the gross asset value per unit of participation. If the subscription price exceeds the high water mark (HWM) on a dealing day, an equalisation credit is granted to the participant. Following the date of grant, the value of the equalisation credit fluctuates with the increase and decrease of the NAV. The equalisation credit will at no time turn into a negative value, and it will not increase beyond the value at the time of issue. By issuing participations against the value of the participant's equalisation credit at the ultimate valuation day of the financial year of the Fund, the credit will be finally settled. There was no equalisation credit settled at 31 December 2016 and 31 December 2015.

Conversely, a participant that acquires participations at a time that the HWM exceeds the NAV per participation, at which point in time the GAV equals the NAV as no performance fee is accrued, will build up an equalisation deficit from the moment that the NAV per participation exceeds the NAV at the time of issue. Any deficit will be finally settled by way of mandatory redemption of the equalisation deficit bearing participations. The Manager is entitled to the ensuing claim. Redemption will take place per the ultimate dealing day of the financial year of the Fund, or at redemption during the year. The equalisation deficit as of 31 December 2016 amounted to €5,088 (31 December 2015: €11,878).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

7. FEES AND EXPENSES (continued)

Other costs charged to the assets of the Fund

	2016	2015
	€	€
Administration fee	94,650	91,773
Legal fee	5,000	18,000
Audit fee	30,500	62,935
Costs of supervision	16,000	12,000
Depositary fee	32,990	43,573
Trustee's fee	11,150	13,550
Other expenses	18,923	18,636
	209,213	**260,467**

Costs of supervision
Costs of supervision are fees charged by the supervising authorities AFM and the Dutch Central Bank.

The depositary charges a fee as an annual percentage of 0.03% of the NAV at each month end, subject to a minimum fee of €25,000 per annum.

The Title Holder receives a trustee's fee of €11,000 on an annual basis excluding VAT and indexation starting in 2015.

Other expenses

	2016	2015
	€	€
Miscellaneous expenses	-	1,494
Brokerage fee (excluded in Ongoing Charges Figure)	18,923	17,142
Total other expenses	**18,923**	**18,636**

Ongoing Charges Figures
The Ongoing Charges Figure (OCF) is a ratio of the total ongoing costs to the average net assets value of the Fund. Ongoing costs include cost of investment management and administration, plus other costs of running the fund, such as fees for custodians, regulators and independent auditors. Transaction costs of investments, interest expenses and performance fee are excluded from the calculation. The OCF will be calculated once a year, the figure as of end of 2016 and 2015 is as follows:

	Ongoing charges %	
	2016	2015
Class A (EUR)	1.71%	1.76%
Class B (EUR)	1.21%	1.26%
Class A (JPY)	-	1.76%
Class A (USD)	-	1.76%

Performance fee ratio
Performance fee ratio is a ratio of the total performance fee (including equalisation deficit) to the average net assets value of the Fund. This ratio will be calculated once a year. As of end of 2016 and 2015 the ratio is as follows.

	Performance fee ratio	
	2016	2015
Class A (EUR)	0.04%	-
Class B (EUR)	0.28%	-
Class A (JPY)	-	-
Class A (USD)	-	-

Subscription and redemption fees
The Fund may upon issue and redemption of a unit of participation charge a fee up to 1.0% of the subscription and redemption amount. These costs may be charged in order to cover the costs incurred in transactions related to subscription and/or redemption and are credited to the Fund. During the year ended 31 December 2016, the Fund did not charge a redemption fee (31 December 2015: €51,009).

Soft dollar arrangement
The Manager may choose to allocate transactions to brokers with whom the Manager has concluded a commission sharing agreement (CSA). A CSA is concluded with a view to allowing the Manager to provide a better level of service to the Fund, with the aim of improving the results. Pursuant to a CSA, the broker receives a commission for executing a transaction that is split ('unbundled') into: 1) execution and 2) research. The sum of money received by the broker that is related to research is entered into a separate account and may be used by the Manager in order to pay for certain services rendered by either the broker or by a third party. The Manager will, however, at all times aim for best execution.

The Fund has entered into a CSA with Merrill Lynch and Instinet in order to facilitate the purchase of generic, macro-economic, technical and company specific research services from, for example: TIS Group, Marc Faber, GMI, QAS, Elliot Wave and Starmine.

Transaction costs
Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, brokers and dealers. Transaction costs, when incurred, are immediately recognised in net gain or loss on financial assets and liabilities at fair value through profit or loss.

The transaction costs amounted to €431,715 in 2016 (2015: €920,517).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

7. FEES AND EXPENSES (continued)

Comparison realised costs versus costs included in Prospectus
Article 123 paragraph 1 sub j of the Decree on the Supervision Conduct of Financial Enterprises (Bgfo) requires a comparison between the actual costs for the reporting year and the costs as mentioned in the Prospectus.

31 December 2016	**Actual Costs**	**Estimated costs Prospectus**
Management fee	€914,172	% of GAV: Class A=1.5% and Class B=1.0%
Performance fee	€247,524	% of annual increase GAV: Class A=20% and Class B=15%
Administration fee	€94,650	+/- of 0.095% of NAV
Trustee's fee	€11,150	Annual fee €11,000
Independent auditor's and advisor fee*	€51,500	Not Specified
Depositary fee	€32,990	0.03% of the NAV
Other costs**	-	Not Specified

31 December 2015	**Actual Costs**	**Estimated costs Prospectus**
Management fee	€941,701	% of GAV: Class A=1.5% and Class B=1.0%
Performance fee	€7,288	% of annual increase GAV: Class A=20% and Class B=15%
Administration fee	€91,773	+/- of 0.10% of NAV
Trustee's fee	€13,550	Annual fee €11,000
Independent auditor's and advisor fee*	€92,935	Not Specified
Depositary fee	€43,573	0.03% of the NAV
Other costs**	€1,494	Not Specified

* Independent auditor's and advisor's costs include audit fee, legal fee and cost of supervision. Audit fee refers to services provided by the independent auditor and relate to the audit of the Financial Statements. The independent auditor is also involved in the examination of the Prospectus of the Fund. This is recorded under the legal fee.

** Other costs include miscellaneous expenses.

Portfolio Turnover Rate
The Portfolio Turnover Rate indicates the turnover ratio of the Fund's portfolio. This rate is an indicator of how actively the investment portfolio is being altered as a consequence of investment decisions and is therefore a function of the investment policy and specifically gross exposure.

The Turnover Rate is calculated as follows:
[(Total 1 – Total 2) / X] *100
Total 1: the total amount of investment transactions (purchase and sale of all cash equity, CFD, options and futures investments)
Total 2: the total amount of subscriptions and redemptions by participants
X: average net asset value of the Fund.

Portfolio Turnover Rate	**2016**	**2015**
	€	**€**
Securities purchase	259,007,950	554,155,895
Securities sale	268,405,792	582,311,927
Total securities transactions	**527,413,742**	**1,136,467,822**
Subscriptions participants	3,262,100	3,000
Redemptions participants	2,242,600	25,299,542
Total movement in participations	**5,504,700**	**25,302,542**
Average net asset value	90,469,225	96,695,323
Turnover Rate	**577%**	**1,149%**

8. ACCRUED EXPENSES

	2016	**2015**
	€	**€**
Administration fee	57,893	26,018
Legal and tax advice fees	16,524	14,434
Audit fee	31,973	34,512
Costs of supervision	321	11,985
Trustee's fee	3,446	5,261
Depositary fee	14,595	14,819
Other accrued expenses	-	6,307
Total	**124,752**	**113,336**

9. INTEREST INCOME/EXPENSE AND BORROWING FEE

	2016	2015
	€	€
Interest income	-	34,193
Interest expense	(695,213)	(701,110)
Borrowing fee	(218,011)	(270,402)
Total	**(913,224)**	**(937,319)**

Borrowing fees incurred during the period resulted from borrowing securities in relation to short positions.

10. DIVIDEND INCOME/EXPENSE

	2016	2015
	€	€
Gross dividend income	1,928,196	2,029,021
Dividend expense on securities sold short	(753,901)	(790,896)
Total	**1,174,295**	**1,238,125**

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

Risk management is an integral part of the investment and the operational process. Risk management can be distinguished in financial risk management, operational risk management and independent risk measurement. Financial risk management encompasses all elements of the investment process. A number of risk management systems allow us to notice any deviations from intended positioning and targets. Operational risk management encompasses the four areas of potential losses: processes, systems, people and external events. Risk measurement is an independent function, which is functionally separated from the operational department and portfolio management.

The Fund's investment objective is to preserve capital and then achieve absolute returns for participants by investing in securities of Japanese Companies. The Fund aims to achieve strong risk adjusted returns without large exposure to the overall stock market and without taking high volatility single factor risks.

Financial instruments and associated risks
The Fund will primarily invest in a diversified portfolio consisting of long and short positions in listed equities. The Fund may utilize derivative financial instruments for the purpose of risk management and for potentially improving returns.

The nature and extent of the financial instruments outstanding at the Statement of Financial Position date and the risk management policies employed by the Fund are discussed below.

The Fund is exposed to several risks. The Prospectus of the Fund describes an extensive list. The following risks are described below: equity risk, currency risk and interest rate risk, credit risk and liquidity risk. Each type of risk is arising from the financial instruments it holds and is discussed in turn below. Qualitative and quantitative analyses are provided where relevant to give the reader an understanding of the risk management methods used by the Manager.

Fair value estimation
IFRS 13 Fair Value Measurement states that when measuring fair value, the objective is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. to estimate an exit price).

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1). Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2). Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Fair value estimation (continued)
The following tables analyses the fair value hierarchy of the Fund's financial assets and liabilities measured at fair value at the year ended 31 December 2016 and as at 31 December 2015:

Financial assets at fair value through profit or loss	31 December 2016 €	Level 1 €	Level 2 €	Level 3 €
Equity securities	65,486,790	65,486,790	-	-
Derivatives	23,687	23,687	-	-
Total	**65,510,477**	**65,510,477**	**-**	**-**

Financial assets at fair value through profit or loss	31 December 2016 €	Level 1 €	Level 2 €	Level 3 €
		€	€	€
Equity securities sold short	(40,278,204)	(40,278,204)	-	-
Derivatives	-	-	-	-
Total	**(40,278,204)**	**(40,278,204)**	**-**	**-**

Financial assets at fair value through profit or loss	31 December 2015 €	Level 1 €	Level 2 €	Level 3 €
		€	€	€
Equity securities	72,247,268	72,247,268	-	-
Derivatives	1,367,558	-	1,367,558	-
Total	**73,614,826**	**72,247,268**	**1,367,558**	**-**

Financial assets at fair value through profit or loss	31 December 2015 €	Level 1 €	Level 2 €	Level 3 €
Equity securities sold short	(41,415,581)	(41,415,581)	-	-
Derivatives	(993,638)	-	(993,638)	-
Total	**(42,409,219)**	**(41,415,581)**	**(993,638)**	**-**

For the year ended 31 December 2016 and the year ended 31 December 2015, there were no transfers between Levels.

For assets and liabilities carried at amortised cost, their carrying values are a reasonable approximation of fair value.

Equity risk
Equity risk is the risk that the Fund is exposed to the volatility of the fair value of the equity securities it holds. The fair value of individual securities may fluctuate as a result of e.g. company specific news, broad market movements, interest rate risk or foreign currency movements. The Manager continuously monitors the (potential) determinants of the value of the securities held and the total portfolio value. As such, risk management is an integral part of investment management which comprises security selection and portfolio construction. Frequently various stock, sector and country exposures are measured and managed against the norms which have been defined for those exposures. Further the overall portfolio is monitored using various (external) portfolio risk (optimizing) systems to monitor and manage market or style exposures.

The value of the securities the Fund holds is partly driven by general market movements. As the Fund has long and short positions in securities, the Fund aims to control its exposure to these general market movements. The following table represents management's best estimate of the effect on the Fund's total net assets due to a 25% change in the market equity price, with all other variables held constant.

The Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. The Beta of a portfolio can be measured by a regression of the portfolio return with the market return, i.e. the ex-post Beta. The Beta of a portfolio can also be measured as the weighted average of the Beta's of the underlying securities, i.e. the ex-ante Beta. Please note that the calculation of a Beta is based upon historical data. It therefore gives an insight in the co-movement of the portfolio with the market as a whole; such calculated Beta can be used as an estimate for the co-movement going forward. Significant differences may occur between the estimate and the co-movement that occurs next year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Equity risk (continued)
The ex-post Beta for the Fund was 0.07 (2015: 0.18), calculated from a regression of the daily returns of the Fund on the MSCI Japan index, from 1 January to 31 December 2016. The ex-ante Beta measured at year-end 2016 is 0.31 (2015: 0.09). (Source: Nomura TradeSpex.)

31 December 2016

Market index	Ex-ante Beta	Change	Effect on net assets and profit	Change	Effect on net assets and profit
		%	€	%	€
MSCI Japan Index	0.31	25%	8,272,562	-25%	(8,272,562)

31 December 2015

Market index	Ex-ante Beta	Change	Effect on net assets and profit	Change	Effect on net assets and profit
		%	€	%	€
MSCI Japan Index	0.09	25%	3,902,305	-25%	(3,902,305)

If an investment portfolio of a fund is relatively concentrated, it is considerably dependent on volatility in specific equities (idiosyncratic risk). The Manager has defined several guidelines to adhere to, with respect to maximum percentages held on a security and sector level. The Fund's investments are all well within the guidelines as described in the Prospectus. The portfolio of the Fund is fairly diversified as is illustrated by the percentages held as disclosed in the sector allocation. The long and short positions are showed separately as a percentage of the net asset value. The net exposure per sector is also stated as a percentage of the net asset value.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency (Euro).

Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the Euro.

IFRS 7 considers the foreign exchange exposure related to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. The Fund however monitors the exposure on all foreign currency denominated assets and liabilities.

The following table demonstrates management's best estimate of the sensitivity to a reasonable change in the foreign exchange rates, with all other variables being constant, of the most representative Fund's foreign currency exposures. The currency sensitivity below is based upon a movement of exchange rates and the direct currency exposures as a result of Fund holdings which are denominated in currencies other than Euro, the functional currency of the Fund.

The Fund has the possibility to hold and to manage currency exposures, but in principle will hedge significant exposures.

The sensitivity analysis for the currency exposures held by the Fund is based on the assumption of a 10% movement in the foreign exchange rates against the Fund's functional currency (Euro). The table below is based upon the breakdown of the assets and liabilities in the different currencies.

Please note that the table below is based upon the holdings as at 31 December 2016 and 31 December 2015; currency exposures continuously change.

The Fund's currency risk is managed on a daily basis by the Manager in accordance with policies and procedures which are in place.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Currency risk (continued)

The total economic exposure to different currencies at 31 December 2016 was:

	Financial assets/ (liabilities) at fair value through profit or loss	Cash and amounts due from/ (to) brokers	Other assets/ (liabilities)	Net currency exposure	In % of total net assets	+10% Movement	-10% Movement
	€	€	€	€	%	€	€
JPY	25,232,273	(28,881,648)	2,140,046	(1,509,329)	(1.61)	(150,933)	150,933
USD	-	2,259,243	-	2,259,243	2.41	225,924	(225,924)
Total	**25,232,273**	**(26,622,405)**	**2,140,046**	**749,914**	**0.80**	**74,991**	**(74,991)**

TThe amounts in the tables are based on the financial assets and financial liabilities.

The currency rates as of 31 December 2016 are as follows:

	JPY	USD
FX/EUR	123.02	1.05

The total economic exposure to different currencies at 31 December 2015 was:

	Financial assets/ (liabilities) at fair value through profit or loss	Cash and amounts due from/ (to) brokers	Other assets/ (liabilities)	Net currency exposure	In % of total net assets	+10% Movement	-10% Movement
	€	€	€	€	%	€	€
JPY	31,205,607	(32,559,670)	1,976,451	622,388	0.69	62,239	(62,239)
USD	-	(84,884)	-	(84,884)	(0.09)	(8,488)	8,488
Total	**31,205,607**	**(32,644,554)**	**1,976,451**	**537,504**	**0.60**	**53,751**	**(53,751)**

The amounts in the tables are based on the financial assets and financial liabilities.

The currency rates as of 31 December 2015 are as follows:

	JPY	USD
FX/EUR	130.68	1.09

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

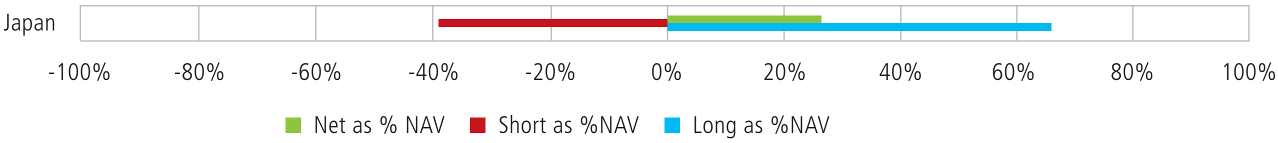
For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Concentration risk

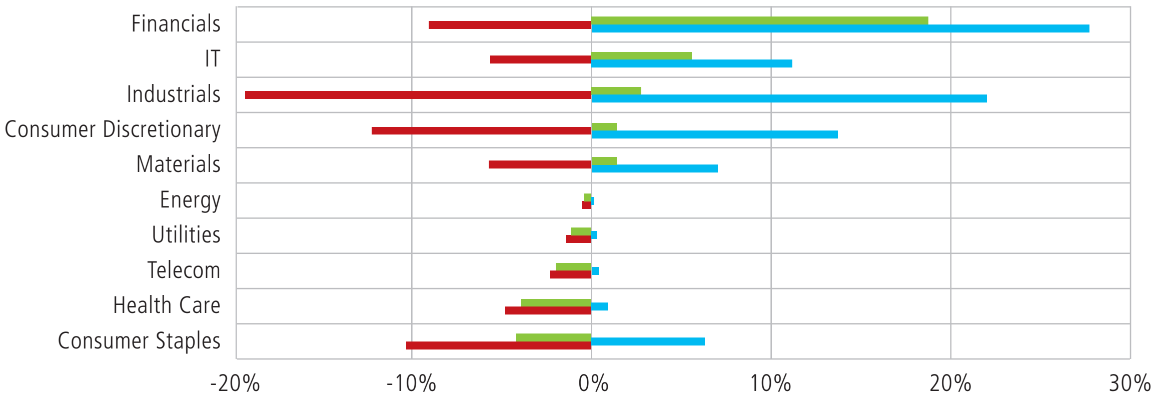
The country allocation (net exposure, long positions and short positions per country) as a percentage of the NAV at 31 December 2016 was as follows:

COUNTRY ALLOCATION PELARGOS JAPAN ALPHA FUND



The sector allocation (net exposure, long positions and short positions per sector) as a percentage of the NAV at 31 December 2016 was as follows:

SECTOR ALLOCATION PELARGOS JAPAN ALPHA FUND



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

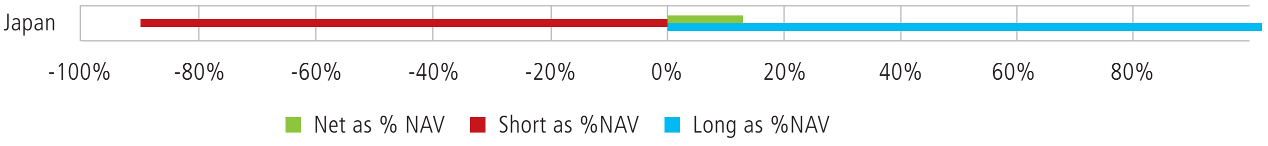
For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Concentration risk (continued)

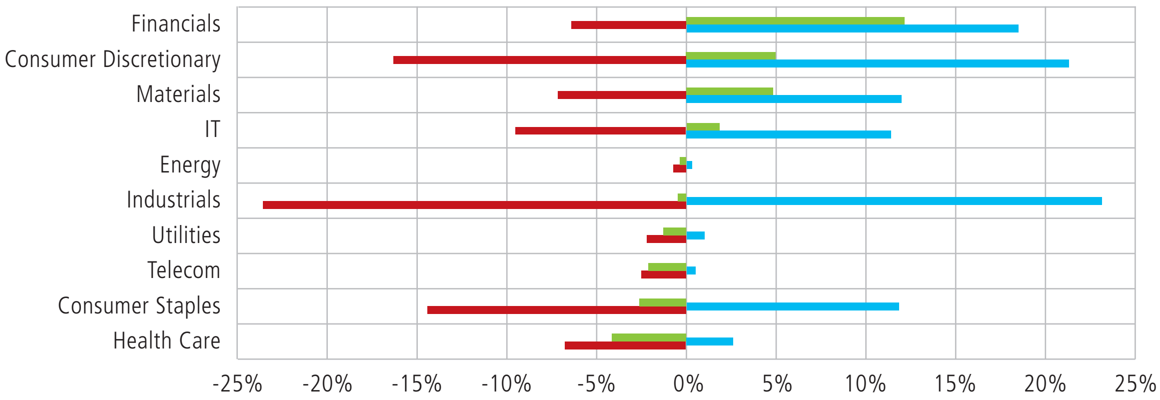
The country allocation (net exposure, long positions and short positions per country) as a percentage of the NAV at 31 December 2015 was as follows:

COUNTRY ALLOCATION PELARGOS JAPAN ALPHA FUND



The sector allocation (net exposure, long positions and short positions per sector) as a percentage of the NAV at 31 December 2015 was as follows:

SECTOR ALLOCATION PELARGOS JAPAN ALPHA FUND



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Concentration risk (continued)

The top long and top short exposures as a percentage of the NAV at the end of 2016 were as follows:

TOP LONG POSITIONS 2016	As % NAV
Pola Orbis Holdings Inc	4.2%
Sumco Corp	3.0%
Relia Inc	2.6%
Sumitomo Metal Mining Co Ltd	2.4%
Mitsui Fudosan Co Ltd	2.3%
Mitsui-Soko Holdings Co Ltd	2.3%
Ichigo Inc	2.2%
Fuji Media Holdings Inc	2.2%
Ryosan Co Ltd	2.1%
Toshiba Plant Systems & Services Corp	2.0%

TOP SHORT POSITIONS 2016	As % NAV
Kose Corp	2.1%
Nissin Foods Holdings Co Ltd	2.0%
Toray Industries Inc	2.0%
House Foods Group Inc	1.9%
Japan Tobacco Inc	1.7%
Nippon Building Fund Inc	1.6%
Komeda Holdings Company Ltd	1.3%
Kikkoman Corp	0.8%
Nitto Denko Corp	0.6%
Keikyu Corp	0.6%

The top long and top short exposures as a percentage of the NAV at the end of 2015 were as follows:

TOP LONG POSITIONS 2015	As % NAV
Ryosan Co Ltd	4.0%
Ichigo Inc	3.3%
Relia Inc	3.0%
Honda Motor Co Ltd	3.0%
Pola Orbis Holdings Inc	2.9%
Chiyoda Co Ltd	2.9%
Metawater Co Ltd	2.8%
Seven & i Holdings Co Ltd	2.8%
Mitsui-Soko Holdings Co Ltd	2.6%
Kaneka Corp	2.6%

TOP SHORT POSITIONS 2015	As % NAV
Kikkoman Corp	3.6%
Komatsu Ltd	3.4%
THK Co Ltd	3.1%
Nissin Foods Holdings Co Ltd	2.7%
Hino Motors Ltd	2.6%
Nippon Express Co Ltd	2.4%
Keyence Corp	1.5%
Sanrio Co Ltd	1.1%
Ibiden Co Ltd	1.0%
Aeon	0.8%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The majority of the Fund's financial assets are non-interest-bearing. At the Statement of Financial Position date the Fund has not invested in deposits or fixed income securities. As a result, the Fund is subject to limited direct exposure to interest rate risk due to fluctuations in the prevailing levels of market interest rates. The Fund is subject to cash flow interest rate risk; however the effect is not considered material due to the short-term nature.

Fund exposure to direct interest rate risk in Euro at 31 December 2016 was:

Assets	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	No stated maturity	Total
	€	€	€	€	€	€
Financial assets at fair value through profit or loss	23,687	-	-	-	65,486,790	65,510,477
Amounts due from brokers	2,539,423	-	-	-	-	2,539,423
Margin accounts	24,494,300	-	-	-	-	24,494,300
Cash and cash equivalents	42,186,173	-	-	-	-	42,186,173
Total	**69,243,583**	**-**	**-**	**-**	**65,486,790**	**134,730,373**

Liabilities	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	No stated maturity	Total
	€	€	€	€	€	€
Financial liabilities at fair value through profit or loss	-	-	-	-	40,278,204	40,278,204
Amounts due to brokers	446,303	-	-	-	-	446,303
Total	**446,303**	**-**	**-**	**-**	**40,278,204**	**40,724,507**

Fund exposure to direct interest rate risk in Euro at 31 December 2015 was:

Assets	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	No stated maturity	Total
	€	€	€	€	€	€
Financial assets at fair value through profit or loss	-	1,195,092	-	-	72,419,734	73,614,826
Amounts due from brokers	2,735,020	-	-	-	-	2,735,020
Margin accounts	30,234,085	-	-	-	-	30,234,085
Cash and cash equivalents	27,399,657	-	-	-	-	27,399,657
Total	**60,368,762**	**1,195,092**	**-**	**-**	**72,419,734**	**133,983,588**

Liabilities	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	No stated maturity	Total
	€	€	€	€	€	€
Financial liabilities at fair value through profit or loss	-	-	-	-	42,209,219	42,209,219
Amounts due to brokers	864,981	-	-	-	-	864,981
Total	**864,981**	**-**	**-**	**-**	**42,209,219**	**43,074,200**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk refers to the potential loss arising if a counterparty is unable to fulfill its financial obligations when due. The Fund is exposed to credit risk in terms of cash deposited at banks or Prime Brokers, (rehypothecated) securities held at Prime Brokers and derivatives with other financial institutions as counterparties.

The Fund's exposure in relation to financial instruments and other debtors is as follows at year-end:

	2016	2015
	€	€
Derivatives	23,687	1,367,558
Amounts due from brokers	2,539,423	2,735,020
Dividends & Interest receivable	170,399	162,144
Margin accounts	24,494,300	30,234,085
Cash at broker	42,186,173	27,399,657
Total	**69,413,982**	**61,898,464**

For the year ended 31 December 2016, OTC derivative transactions were executed with the Fund's Prime Brokers Goldman Sachs International, UBS AG and Nomura International plc. The Fund's derivative contracts held were equity CFD's, futures and options.

To mitigate credit risk, three Prime Brokers have been legally appointed, allowing a transfer of securities and cash. Further, securities and cash are only held at, and derivatives are only executed with (investment grade) rated counterparties. Long-term ratings for Goldman Sachs International at period end were A3 (2015: A3 (Moody's)) and BBB+ (2015: BBB+ (S&P)). Long-term ratings for UBS AG at year-end were Aa3 (2015: A1) at Moody's and A+ (2015: A) at S&P. Long-term ratings for Nomura International plc at year-end were AA- (2015: AA-) at Japan Credit Rating Agency and A- (2015: BBB+) at S&P.

The Prime Brokers may acquire legal title to the Fund's assets up to an amount of more than 100% (max 140%) of the value of the (i) liabilities or (ii) net indebtedness, as the case may be, of the Fund towards the relevant Prime Brokers (rehypothecation). The Fund will have a right to the redelivery of equivalent assets from the Prime Brokers. In the event of an insolvency of either party, the obligation to redeliver will be given a cash value and will form part of a set off calculation against the amount the Fund owes the Prime Brokers.

To the extent that the Prime Brokers have rehypothecated assets in excess of the amount that the Fund owes, the Fund ranks as a general creditor for the excess following the operation of set-off, with the risk that such excess may not be reclaimed. The Fund continuously monitors the creditworthiness of its Prime Brokers and has appointed multiple Prime Brokers.

The Fund has entered into master netting agreements with its Prime Brokers. Under these agreements all assets and liabilities with the Prime Broker can be offset with each other.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

The financial assets and liabilities which are subject to offsetting as of 31 December 2016 and as of 31 December 2015 are as follows:

Financial assets subject to offsetting, enforceable master netting agreements and similar agreements

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set-off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set-off in the statement of financial position: Financial instrument	Net amount
2016	**€**	**€**	**€**	**€**	**€**
Investments pledged* GS	-	-	-	-	-
Derivative assets GS	23,687	-	23,687	-	23,687
Investments pledged Nomura	-	-	-	-	-
Derivative assets Nomura	-	-	-	-	-
2015	**€**	**€**	**€**	**€**	**€**
Investments pledged* GS	28,953,464	-	28,953,464	-	28,953,464
Derivative assets GS	765	-	765	-	765
Investments pledged Nomura	-	-	-	-	-
Derivative assets Nomura	172,466	-	172,466	172,466	-

Financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set-off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set-off in the statement of financial position: Financial instrument	Net amount
2016	**€**	**€**	**€**	**€**	**€**
Derivative liabilities GS	-	-	-	-	-
Derivative liabilities Nomura	-	-	-	-	-
2015	**€**	**€**	**€**	**€**	**€**
Derivative liabilities GS	-	-	-	-	-
Derivative liabilities Nomura	993,638	-	993,638	172,446	821,172

* rehypothecated equity long

To enable to short securities, the Fund borrows securities. At 31 December 2016, the Fund borrowed securities for an amount of €39,157,770 (31 December 2015: €58,168,666).

The maximum exposure in relation to financial instruments and other debtors is the carrying value of the financial assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Liquidity risk
Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities.

The Fund is exposed to cash redemptions of redeemable units of participation for a monthly valuation day, with 15 business day's previous notice. With regard to Class B units of participation this relates to redemption requests received after the one year lock up period.

The Fund invests the majority of its assets in investments that are listed and traded in active markets and can be readily realisable as they are all listed on major Japanese stock exchanges.

The Fund may invest in derivative contracts traded over the counter, which are not traded on a regulated exchange and may be illiquid. As a result, the Fund may not be able to liquidate quickly its investments in these instruments at their fair value to meet its liquidity requirements. If OTC derivative contracts are used, the counterparties will be rigorously selected and monitored. The liquidity of all securities is continuously monitored by the Manager.

The liquidity profile of the Fund's financial liabilities based on undiscounted contractual maturities is illustrated as follows:

31 December 2016	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	No stated maturity	Total
Assets	**€**	**€**	**€**	**€**	**€**	**€**
Financial assets at fair value through profit or loss	-	-	-	-	65,486,790	65,486,790
Derivatives	23,687	-	-	-	-	23,687
Other receivables	170,399	-	-	-	-	170,399
Amounts due from brokers	2,539,423	-	-	-	-	2,539,423
Margin accounts	24,494,300	-	-	-	-	24,494,300
Cash and cash equivalents	42,186,173	-	-	-	-	42,186,173
Total	**69,413,982**	**-**	**-**	**-**	**65,486,790**	**134,900,772**
Liabilities						
Financial liabilities at fair value through profit or loss	-	-	-	-	40,278,204	40,278,204
Other liabilities and accrued expenses	591,478	-	-	-	-	591,478
Amounts due to brokers	446,303	-	-	-	-	446,303
Total	**1,037,781**	**-**	**-**	**-**	**40,278,204**	**41,315,985**
Redeemable units of participation	-	93,584,787	-	-	-	93,584,787
Total	**-**	**93,584,787**	**-**	**-**	**-**	**93,584,787**
Liquidity gap	**68,376,201**	**(93,584,787)**	**-**	**-**	**25,208,586**	**-**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

31 December 2015	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	No stated maturity	Total
Assets	**€**	**€**	**€**	**€**	**€**	**€**
Financial assets at fair value through profit or loss	-	-	-	-	72,247,268	72,247,268
Derivatives	-	1,195,092	-	-	172,466	1,367,558
Other receivables	162,144	-	-	-	-	162,144
Amounts due from brokers	2,735,020	-	-	-	-	2,735,020
Margin accounts	30,234,085	-	-	-	-	30,234,085
Cash and cash equivalents	27,399,657	-	-	-	-	27,399,657
Total	**60,530,906**	**1,195,092**	**-**	**-**	**72,419,734**	**134,145,732**
Liabilities						
Financial liabilities at fair value through profit or loss	-	-	-	-	41,415,581	41,415,581
Derivatives	-	-	-	-	993,638	993,638
Other liabilities and accrued expenses	248,808	-	-	-	-	248,808
Amounts due to brokers	864,981	-	-	-	-	864,981
Total	**1,113,789**	**-**	**-**	**-**	**42,409,219**	**43,523,008**
Redeemable units of participation	-	90,622,724	-	-	-	90,622,724
Total	**-**	**90,622,724**	**-**	**-**	**-**	**90,622,724**
Liquidity gap	**59,417,117**	**(89,427,632)**	**-**	**-**	**30,010,515**	**-**

There is no contractual maturity for all equity investments held, those investments are classified under no stated maturity. The below liquidity analysis provides more details related to the liquidity of those investments.

Liquidity analysis
The liquidity of the securities is continuously monitored as liquidity risk is a risk factor that we believe is important to manage. Closing illiquid positions can be costly as prices can move significantly in a few days, especially if headline driven traders are involved. To mitigate this risk the Manager expects to exit 50% of the assets in the Fund within one week and 95% within one month. The Manager currently maintains a level within such limits.

The following tables relate all equity and CFD positions of the Fund to the average daily trading volumes (ADV). The average and maximum ADVs are based on the average daily trading volume over the last 3 months of 2016. The average long position of the Fund was 50% of the ADV. Liquidity of the Fund remains high as can be seen from below table: within 4 days, 75% of the long book can be closed. 92% of the short book can be closed within 1 day. The max ADV was the value of the most illiquid position as a percentage of 3-months average ADV.

Those tables stated the percentage of the assets held in five different classes of market liquidity. For example: 43% of the Fund's long positions can be sold within a day, under the assumption that we trade maximum 25% of daily volume.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2016

11. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

Liquidity analysis (continued)

Liquidity profile of the Long portfolio

Percentage of 3-months ADV	Average ADV	Max ADV	Percentage of Portfolio in% of the ADV				
			0%-25%	25%-50%	50%-100%	100%-200%	>200%
31 December 2016	50%	1647%	43%	20%	13%	13%	12%
31 December 2015	60%	343%	53%	11%	14%	14%	8%

Liquidity profile of the Short portfolio

Percentage of 3-months ADV	Average ADV	Max ADV	Percentage of Portfolio in% of the ADV				
			0%-25%	25%-50%	50%-100%	100%-200%	>200%
31 December 2016	3%	35%	92%	8%	-	-	-
31 December 2015	5%	27%	100%	-	-	-	-

12. DERIVATIVE CONTRACTS

Typically, derivative contracts serve as components of the Fund's investment strategies and are utilized primarily to structure and hedge investments to enhance performance and reduce risk to the Fund. The derivative contracts that the Fund held or issued, were equity contracts for difference, futures and options.

The Fund records its derivative activities on a mark-to-market basis. The Fund uses widely recognised valuation models for determining fair values of over-the-counter CFD derivatives.

For CFD financial instruments, inputs into models are based on the price of the underlying financial instruments and are therefore market observable. CFDs represent agreements that obligate two parties to exchange a series of cash flows at specified intervals based upon or calculated by reference to changes in specified prices or rates for a specified amount of an underlying asset or otherwise determined notional amount. The payment flows are usually netted against each other, with the difference being paid by one party to the other. Therefore amounts required for the future satisfaction of the CFD may be greater or less than the amount recorded. The realised gain or loss depends upon the prices at which the underlying financial instruments of the CFD is valued at the CFD settlement date and is included in the Statement of Comprehensive Income.

The Fund purchases or sells put and call options through listed exchanges and the OTC markets. Options purchased by the Fund provide the Fund with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Forward foreign currency contracts are valued by reference to the forward price at which a new forward contract of the same size and maturity could be undertaken at the valuation date. Forward foreign currency contracts entered into by the Fund represent a firm commitment to buy or sell an underlying asset, or currency at a specified value and point in time based upon an agreed or contracted quantity. The realised/unrealised gain or loss is equal to the difference between the value of the contract at the onset and the value of the contract at settlement date/year-end date and are included in the Statement of Comprehensive Income.

A futures contract is an agreement between two parties to buy and sell a security, index or currency at a specific price or rate at a future date. Upon entering into a futures contract, the Fund is required to deposit with a broker an amount of cash or cash equivalents equal to a certain percentage of the contract amount. This is known as 'initial cash margin'. Subsequent payments ('variation margin') are made or received by the Funds each day, depending upon the daily fluctuation in the value of the contract. The daily changes in contract value are recorded as unrealised gains or losses and the Funds recognise a realised gain or loss when the contract is closed. Unrealised gains and losses on futures contracts are recognised in the Statement of Comprehensive Income.

Unrealised gains or losses are valued in accordance with the accounting policy stated in Note 2 and the resulting movement in the unrealised gain or loss is recorded in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

12. DERIVATIVE CONTRACTS (continued)

As of 31 December 2016 and 31 December 2015, the following derivative contracts were included in the Fund's Statement of Financial Position at fair value through profit or loss:

	Fair value assets 31 December 2016 €	Fair value liabilities 31 December 2016 €
Options	23,687	-
Total derivative contracts	**23,687**	**-**

	Fair value assets 31 December 2015 €	Fair value liabilities 31 December 2015 €
Options	1,194,327	-
Contracts for difference	172,466	(993,638)
Futures	765	-
Total derivative contracts	**1,367,558**	**(993,638)**

The table below details the total derivatives exposure at 31 December 2016 and 31 December 2015. Gross exposure is the sum of absolute market value of all long and short positions. Net exposure is the balance of market value of all long and short positions. At 31 December 2016 the Fund held one equity index option.

The leverage of the Fund is a ratio between the total gross exposure and the net asset value of the Fund. The maximum leverage the Fund may have is 250%. At 31 December 2016 the leverage is 114% (31 December 2015: 191%).

2016	Net exposure	Gross exposure	Gross as % NAV
Equities	25,209,489	105,768,782	113.0%
Options	(973,957)	973,957	1.0%
Total exposure	**24,235,532**	**106,742,739**	**114.0%**
Total as % of NAV	**25.9%**	**114.0%**	**114.0%**

2015	Net exposure	Gross exposure	Gross as % NAV
Equities	30,829,722	113,655,605	125.4%
Contracts for difference	(35,248)	37,568,883	41.5%
Futures	1,456,459	1,456,459	1.6%
Options	(20,754,833)	20,754,833	22.9%
Total exposure	**11,496,100**	**173,435,780**	**191.4%**
Total as % of NAV	**12.7%**	**191.4%**	**191.4%**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2016

13. REDEEMABLE UNITS OF PARTICIPATION

Since inception of the Fund, Class A and Class B units of participation were issued; Class B is only nominated in Euro. Class A is nominated in Euro. The (initial) investment required for a participant in Class A is Euro 10,000. Subsequent subscriptions and redemptions have a minimum size of Euro 1,000. Class A units of participation in US Dollar and in Japanese Yen were closed as of 2 November 2015.

Class B has a “lock up” of one year. The minimum (initial) investment for the ‘seeding’ investor, employees and employees of the directors is Euro 1,000 and for other participants Euro 10,000. Subscriptions and redemptions have a minimum size of Euro 1,000.

Each participant is entitled to cast one vote for each unit of participation. One or more participants who jointly hold at least 10% of the total number of participations can request the Manager to hold a meeting and can add topics to the agenda.

Transactions in units of participation for Class A and Class B For the year ended 31 December 2016 and 31 December 2015 were as follows:

	Number of units of participation 2016	Number of units of participation 2015
Class A (EUR)		
Units of participation balance at the beginning of the year	236.27	236.27
Issue of redeemable units of participation	-	-
Units of participation at the end of the year	**236.27**	**236.27**

	Number of units of participation 2016	Number of units of participation 2015
Class B (EUR)		
Units of participation balance at the beginning of the year	59,246.86	76,538.46
Issue of redeemable units of participation	2,144.99	2.09
Redemption of redeemable units of participation	(1,439.11)	(17,293.69)
Issue/Redemption related to equalisation credit/(deficit)	(7.79)	-
Units of participation at the end of the year	**59,944.95**	**59,246.86**

Capital management
As a result of the ability to issue and redeem shares, the capital of the Fund can vary depending on the demand for redemptions and subscriptions to the Fund. The Fund is not subject to externally imposed capital requirements and has no legal restrictions on the issue or redemption of redeemable shares beyond those included in the Fund’s constitution.

The Fund’s objectives for managing capital are:

1. To achieve long-term capital appreciation;
The Fund aims for returns which have a low correlation with the returns of the market index. To achieve this objective the Fund uses investment instruments and applies an investment and risk management policy as described in the prospectus.

2. To maintain sufficient liquidity to meet redemption requests as they arise.

Note 11 ‘Risk associated with financial instruments’ explains equity risk, currency risk, interest rate risk, credit risk and liquidity risk in more detail

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

14. RELATED PARTY TRANSACTIONS

Employees of directors and employees of Pelargos Capital B.V. held jointly 240.63 (31 December 2015: 285.31) units of participation Class B in the Fund. Pelargos Capital B.V. held 136.47 (31 December: 2015: 136.47) units of participation Class A Euro.

Two investment funds managed by Aegon Investment Management B.V. (AIM B.V.) held 59,672.78 (31 December 2015: 58,930) units of participation Class B and 99.8 (31 December 2015: 99.80) units of participation Class A.

AIM B.V. is a 100% subsidiary of Aegon Asset Management Holding B.V., which is a 100% subsidiary of Aegon N.V. Aegon Asset Management Holding B.V. holds 73.34% (31 December 2015: 73.34%) of the shares in Pelargos Capital B.V.

15. PERSONAL INTERESTS OF DIRECTORS

In accordance with article 122 paragraph 2 Bgfo the Fund is required to list the total holdings in securities by the (employees of) directors in investments, which are also held by the Fund as of 31 December 2016.

As of 31 December 2016 and 31 December 2015 there are no personal interests of the employees of directors in investments, which were also held by the Fund.

As of 31 December 2016 and 31 December 2015 the personal interests of employees of directors and non-executive director of the Fund are as follows:

	Market Value 31 December 2016 €	**Market Value 31 December 2015 €**
Pelargos Japan Alpha Fund	374,326	434,891
	374,326	**434,891**

16. REMUNERATION

Pelargos Capital B.V. has defined a remuneration policy. This includes among other things provisions on the deferral of at least 40% allocated bonus amounts. The directors discuss the proposed budgeted amount for variable pay with the shareholders. The directors decide on the assessment of performances of members of personnel and the amount of variable pay allocated to each member of personnel. The amount of variable pay for each employee is dependent on several weighted criteria, a.o. the performance of the relevant fund, the contribution to the (improvement) of the investment process, the contribution to (the improvement of) other company processes among which risk management, the contribution to marketing and sales, as well as the quality of activities in the execution of existing company processes.

Senior management relates to the two statutory directors and one other key risk taker. Other personnel include portfolio managers and all other (non- investment) staff. All employees are eligible to receive variable pay, and for all employees deferral of at least 40% of variable applies. On average the company had 10.2 FTE employed in 2016 (2015: 9.7). Though the portfolio managers and analysts have specific areas to focus at, Pelargos Capital B.V. works as one team with two consistent policies for the two funds managed. Therefore, the presentation of the allocation of FTE, Positions and remuneration to the funds is based on a pro rata division of the assets under management in 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

16. REMUNERATION (continued)

2016	**Positions**	**FTE**	**Variable remuneration**	**Salary**
			€	**€**
Pelargos Japan Alpha Fund	1.2	1.2	67,414	167,408
Pelargos Asia Alpha Fund	1.6	1.6	90,590	224,961
Pelargos Japan Long Short Value Fund (non AIF)	0.1	0.1	7,797	19,363
Senior management	3.0	3.0	165,801	411,732
Pelargos Japan Alpha Fund	4.5	2.5	52,694	243,279
Pelargos Asia Alpha Fund	6.0	3.4	70,810	326,917
Pelargos Japan Long Short Value Fund (non AIF)	0.5	0.3	6,095	28,138
Other personnel	11.0	6.2	129,599	598,334
Pelargos Japan Alpha Fund	5.7	3.7	120,108	410,688
Pelargos Asia Alpha Fund	7.6	5.0	161,400	551,878
Pelargos Japan Long Short Value Fund (non AIF)	0.7	0.4	13,892	47,500
Total all personnel	**14.0**	**9.2**	**295,400**	**1,010,066**

2015	**Positions**	**FTE**	**Variable remuneration**	**Salary**
			€	**€**
Pelargos Asia Alpha Fund	1.7	1.7	123,879	245,522
Pelargos Japan Alpha Fund	1.3	1.3	91,989	182,318
Senior management	3.0	3.0	215,868	427,840
Pelargos Asia Alpha Fund	6.3	3.6	108,076	272,970
Pelargos Japan Alpha Fund	4.7	2.6	80,255	202,701
Other personnel	11.0	6.2	188,331	475,671
Total Pelargos Asia Alpha Fund	8.0	5.3	231,955	518,492
Total Pelargos Japan Alpha Fund	6.0	3.9	172,244	385,019
Total all personnel	**14.0**	**9.2**	**404,199**	**903,511**

17. DIVIDEND AND ALLOCATION OF RESULT

During the year ended 31 December 2016, the Fund did not pay dividends. The result is included in the net assets attributable to holders of redeemable units of participation.

18. INVESTOR MONEY REGULATIONS

In response to the Central Bank of Ireland publishing the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) Investor Money Regulations 2015 for Fund Service Providers (the "Investor Money Regulations" or "IMR") in March 2015 (effective from 1 July 2016), the Investment Manager undertook, together with BNY Mellon Fund Services (Ireland) Designated Activity Company, a review of the way in which subscription, distribution and redemption monies are channelled to and from the Fund. As a result of this review, subscription and redemption monies are (effective from 1 July 2016), channelled through a cash collection account in the name of the Fund. Pending issue of the units and / or payment of subscription proceeds to an account in the name of the Fund, and pending payment of redemption proceeds or distributions, the relevant investor will be an unsecured creditor of the Fund in respect of amounts paid by or due to it. At 31 December 2016, the value of such subscriptions amounted to €20,000 and is included within cash and cash.

19. SUBSEQUENT EVENTS

There are no subsequent events impacting the Fund subsequent to 31 December 2016 up to the date of approval of these financial statements.

20. APPROVAL OF THE FINANCIAL STATEMENTS

Approved on behalf of the Manager:

Director Pelargos Capital B.V.

Date: 25 April 2017

OTHER NOTES

For the year ended 31 December 2016

1. VOTING POLICY

The Manager adheres to the Japan Stewardship Code (the Code) as of September 2016. The Code, published in 2014, sets out best practice principles for responsible institutional investors. The Manager has a voting policy to support the Code and will in the best interest of the participants engage with Japan listed companies in which the Fund invests.

2. APPROVAL OF THE FINANCIAL STATEMENTS

The Manager approved the financial statements on 25 April 2017.

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Independent auditor's report

To: the board of directors of Pelargos Capital B.V., the investment manager of Pelargos Japan Alpha Fund

Report on the financial statements 2016

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of Pelargos Japan Alpha Fund as at 31 December 2016, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS), the Dutch Financial Supervision Act and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2016 of Pelargos Japan Alpha Fund, The Hague ('the Fund').

The financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the following statements for 2016: the statements of comprehensive income, cash flows and changes in net assets attributable to holders of redeemable units of participation;
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS, the Dutch Financial Supervision Act and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

Independence

We are independent of Pelargos Japan Alpha Fund in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).

Ref.: e0400679

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Fund information.
- Fund profile.
- Summary of financial information.
- Manager's report.
- The other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.
- Supplementary information (unaudited) appendix 1 – EU Securities Financing Transactions Regulations 2016.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The investment manager is responsible for the preparation of the other information, including the manager's report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

Responsibilities for the financial statements and the audit

Responsibilities of the investment manager

The investment manager is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS, the Dutch Financial Supervision Act and Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the manager's report in accordance with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the investment manager determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the investment manager is responsible for assessing the Fund's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the investment manager should prepare the financial statements using the going-concern basis of accounting unless the investment manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so. The investment manager should disclose events and circumstances that may cast significant doubt on the Fund's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 25 April 2017
PricewaterhouseCoopers Accountants N.V.

Original has been signed by D.J.P. van Veen RA

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Appendix to our auditor's report on the financial statements 2016 of Pelargos Japan Alpha Fund

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things, of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the investment manager.
- Concluding on the appropriateness of the investment manager's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the investment manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

SUPPLEMENTARY INFORMATION (UNAUDITED) APPENDIX 1

EU SECURITIES FINANCING TRANSCTIONS REGULATIONS 2016 (“SFTR”)

During the year ended 31 December 2016, additional SFTR disclosures are required for repurchase/reverse repurchase transactions, total return swaps (including contracts for difference), securities borrowing and margin lending transactions. For the year ended 31 December 2016, the Fund has not entered into any stock lending transactions and repurchase/reverse repurchase transactions.

The following table details the Fund’s exposure (calculated on a net basis) to repurchase/reverse repurchase transactions, total return swaps (including contracts for difference), securities borrowing and margin lending transactions as at 31 December 2016.

31 December 216	Counterparty country of incorporation	Reverse repurchase transactions	Total return swap (including CFD)*	Securities borrowing	Margin lending transactions
Counterparty		**€**	**€**	**€**	**€**
Goldman Sachs	United Kingdom	-	-	39,157,770	23,934,160
Nomura	United Kingdom	-	-	-	-
UBS	United Kingdom	-	-	-	560,140
Total		**-**	**-**	**39,157,770**	**24,494,300**
Total as % of the NAV		**-**	**-**	**42%**	**26%**

*the value of total TRS’s is based on the aggregate gross notional value of all open positions.

The following table provides an analysis of the maturity tenor of reverse repurchase transactions, total return swaps (including contracts for difference), securities borrowing and margin lending transactions outstanding as at 31 December 2016:

31 December 216	Reverse repurchase transactions	Total return swap (including CFD)	Securities borrowing	Margin lending transactions
Maturity tenor	**€**	**€**	**€**	**€**
1 day	-	-	-	-
2 to 7 days	-	-	-	-
8 to 30 days	-	-	-	-
31 to 90 days	-	-	-	-
91 to 365 days	-	-	-	-
more than 365 days	-	-	-	-
open transactions	-	-	39,157,770	24,494,300

The above maturity tenor analysis has been based on the respective transaction contractual maturity date. Open transactions are those transactions that are recallable or terminable on a daily basis and include securities borrowing, margin lending transactions and contracts for difference.

The Fund did not have cash and non-cash collateral received or posted by way of a title transfer collateral arrangement in respect of reverse repurchase transactions and derivative transactions in 2016.

SUPPLEMENTARY INFORMATION (UNAUDITED) APPENDIX 1

EU SECURITIES FINANCING TRANSCTIONS REGULATIONS 2016 ("SFTR")

Security borrowing, total return swaps, margin lending transactions and re-use of Fund's assets

Securities borrowing, total return swaps and margin lending transactions are normally governed by a prime brokerage agreement with the Prime Broker(s). Under these arrangements, the Fund is required to post margin in respect of all its obligations to the Prime Broker(s) under that agreement. Each Prime Broker has a security interest over all non-cash assets held with it in the pooled custody accounts. Any of these assets can be used by the Prime Broker to cover their margin requirement for the Fund. Each Prime Broker also has the right to re-hypothecate a certain amount of the Fund's assets to use for their own proprietary purposes. The amount that each Prime Broker is permitted to re-hypothecate will be set out in its prime brokerage agreement and further details are disclosed in the Fund's prospectus. The maximum percentage of rehypothecation is 140%.

All returns and costs from stock borrowing and total return swap transactions will accrue to the Fund and are not subject to any returns or cost sharing arrangements with the Fund's Manager.

There is no profit sharing arrangement in place with the Fund to share any return earned by the Prime Broker(s) though their re-use of the Fund's assets.

The following table details the percentage of rehypothecation of the Fund as at 31 December 2016:

Re-use of Fund's asset Counterparty	Country	Rehypothecation % 31 December 216
Goldman Sachs	United Kingdom	-
Nomura	United Kingdom	-
UBS	United Kingdom	-

All returns and costs from margin lending transactions will accrue to the Fund and are not subject to any returns or cost sharing arrangements with the Fund's Manager.

Repurchase/ reverse repurchase transactions

The Fund did not have a Global Master Repurchase Agreements ("GMRA") or Master Repurchase Agreements ("MRA") with its Prime Broker. There were no reverse repurchase transactions in 2016. There were no return sharing agreements with the Fund's Manager.