VIEW FROM THE TOP

In March, the MSCI Japan declined -3.2%, after having declined -3.8% in the prior month. The Pelargos Japan B class shares declined -1% with one trading day less, due to a banking holiday on Mar 30. Volatility remained elevated and the Japanese market declined -8% intra-month peak-to-trough. Even the resilient US market started to show some weakness and sold off -2.6% in US dollar terms. The US FED is two years into a tightening cycle aiming to "normalize" interest rates. This means that at some point volatility in global risk assets will be normalized as well. Global markets are in the midst of this transition phase, as the Bank of Japan (BOJ) and the European Central Bank (ECB) have not tightened yet. The BOJ is not considering tightening and/or tapering QE until its inflation target has been met. Despite the divergence in monetary policy, the Japanese Yen (JPY) has surprisingly strengthened by +5.7% in the first quarter (Q1) of 2018. Taking the JPY appreciation into account the Japanese market actually outperformed the US market by 1% in Q1. Due to the JPY strength, earnings revisions have decelerated, however the Japanese economy is doing just fine. The labor market is extremely tight and wages, especially at the bottom range of the income distribution increased strongly. This bodes well for retail spending; however, increased labor costs are certainly a risk factor for corporates.

SINGLE STOCK OBSERVATIONS

Despite the global risk off environment, our high conviction long positions Toshiba Plant Systems (+6.4%), Ichigo Group (5.4%) and Taihei Dengyo (+7%) appreciated significantly last month. These long positions are largely domestic businesses insulated from global macro risk factors. Toshiba Plant System and Taihei Dengyo are great business models with high Returns-On-Invested-Capital and rather inefficient balance sheets. Whilst real estate in Tokyo seems expensive, in our opinion the listed real estate companies look extremely undervalued in relation to the physical market. Ichigo Group, is our largest long exposure in the developer space, and after last year's underperformance the stock is off to good start in 2018. This will mark the 8th year that we are a shareholder.

Mid-March, Zuiko, one of the oldest and Asia's largest diaper machine builder, downwardly revised its full year numbers. We already expected soft numbers as the past two years were plagued by disappointing results due to pricing pressure in the Chinese market. After the prolonged de-rating the stock trades at a discount to book value whilst 60% of the market capitalization consists of cash. A fortress-like balance sheet, a stellar product line-up with decent long-term growth potential trading at significant discount to its intrinsic value.

Unfortunately, Maeda Road Construction declined another -6.4% in March on no new news. Sumco declined -3.2%, despite the extremely solid fundamentals in its wafer business. However, the stock traded down in sympathy with the broader market due to its high beta aspect and high sensitivity to the JPY.

RISK ALLOCATION

The net exposure at month end stood at 28% and the gross exposure at 128%. Of the 28% net exposure, 15 %-point is net long Industrials exposure and Consumer Discretionary as well as the Real Estate sector account for 11 %-points each. 30% of the entire gross exposure is allocated to the Industrials sector where we find most opportunities in the smaller capitalization machinery space.

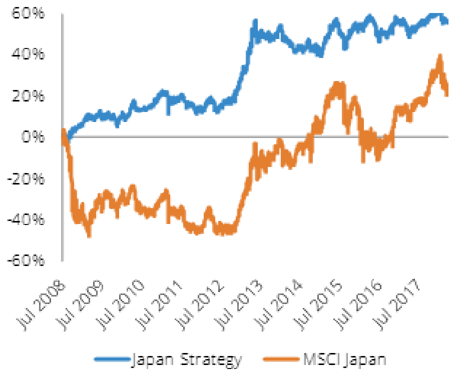
STYLE ANALYSIS

The biggest headwind for the performance this month was the poor performance of value as a style factor. Perceived higher quality companies trading at expensive valuation strongly outperformed the market. For example, the Consumer Staples sector appreciated +2.5% in a risk-off, down market.

OUTLOOK

2018 is the year that volatility makes its comeback. After years of risk suppression by central bank intervention, this year the repricing of volatility is a given. In every tightening cycle, the US FED raises rates until the weakest link in the credit system breaks. Therefore, we closely monitor credit spreads, corporate bankruptcies and consumer debt delinquencies for clues towards risk assets. We expect a deceleration in global growth and with heightened policy and geo political risk expect continued volatility for the remainder of this year. In Japan, May is by far the month with most share buy-back announcements. Our long book consists of companies with very high quality balance sheets, some with 50% cash-to-market cap. Cash hording and inefficient capital allocation are one of the main targets addressed by the Japanese steward ship code. Therefore we expect strong commitments from the managements of our long holdings to increasingly focus on efficient capital allocation and enhance shareholder returns by compounding book-value-per share as well as earnings-per-share.

FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

Ichigo Group
Toshiba Plant Sy
Taihei Dengyo
Sumco Corp
Shimachu

TOP 5 MOVERS

Toshiba Plant Sy (long)	0.27%
Ichigo Group (long)	0.26%
Taihei Dengyo (long)	0.23%
Token Corp (short)	0.19%
Metawater (long)	0.09%

TOP 5 SHAKERS

Shinoken Group (short)	-0.15%
Yamazaki Baking (short)	-0.10%
Lawson (short)	-0.10%
Leopalace21 Corp (short)	-0.08%
Daito Trust Cons (short)	-0.06%

FUND FACTOR

	Long	Short
Price to Earnings (PE)	17.0	22.1
EV/EBITDA	10.6	12.2
Price to Book (PB)	1.7	3.8
Dividend Yield	2.3	1.4
EV/IC	1.2	2.7
1 month momentum	0.0	0.9
12-1 month momentum	25.5	20.2

FUND PERFORMANCE*

Month to date performance	-1.03%
Year to date performance	-3.04%
Inception to date performance	55.71%

**based on share class B EUR*

FUND FACTS*

Fund size in mln EUR	98.86
Fund size in mln USD	103.80
Firm size in mln EUR	236.96
Firm size in mln USD	291.42

RISK STATISTICS

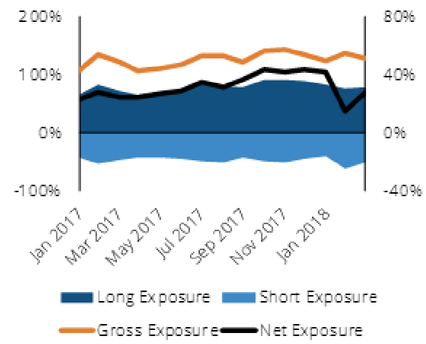
Net Exposure	28%
Gross Exposure	128%
Volatility (ex-ante; 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.67
Sortino Ratio	1.28
Sterling Ratio	0.55
Max Drawdown (monthly)	-8.4%
Annualized Return	4.6%

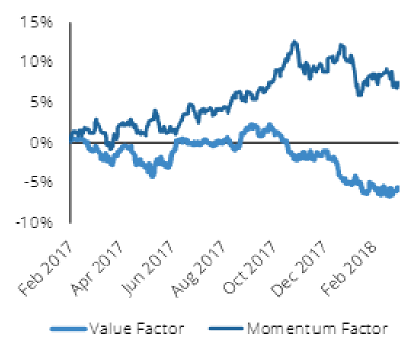
SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	15	-9	6	23
Consumer Staples	6	-9	-3	15
Energy	0	-1	-1	1
Financials	0	-1	-1	2
Health Care	0	-3	-3	3
Industrials	26	-6	20	32
Information Technology	9	-5	4	13
Materials	3	-4	-1	6
Real Estate	18	-8	10	27
Telecommunication Services	0	-1	-1	1

GENERAL STATISTICS

% Return long book	-0.85%
% Return short book	1.78%
# Long stocks	31
# Short stocks	11
% Long stocks ↑	81%
% Short stocks ↓	18%
# Up days / Down days	7 / 13
Turnover as % NAV	26%





FUND PERFORMANCE: CLASS B EUR

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
2018	-0.26%	-1.77%	-1.03%										-3.04%	55.71%
2017	0.56%	-0.92%	-1.63%	-0.57%	0.23%	1.32%	1.18%	0.46%	0.99%	1.25%	0.20%	0.14%	3.22%	60.59%
2016	1.27%	0.92%	1.18%	-0.16%	-1.08%	-4.33%	2.12%	-1.05%	-0.29%	2.38%	0.88%	0.39%	2.07%	55.58%
2015	-1.24%	4.89%	-0.27%	3.25%	2.57%	-1.67%	-2.94%	-3.01%	2.46%	1.88%	2.06%	-1.42%	6.36%	52.42%
2014	-3.16%	-0.60%	-0.56%	-0.99%	-2.24%	1.44%	0.23%	-0.60%	2.06%	-1.89%	-1.24%	0.96%	-6.52%	43.31%
2013	5.35%	-0.58%	6.98%	6.48%	-1.07%	-0.78%	0.31%	-0.92%	1.18%	-0.80%	1.46%	1.73%	20.57%	53.31%
2012	-1.38%	3.81%	1.35%	-1.21%	-3.83%	1.76%	0.84%	0.93%	1.32%	0.58%	2.50%	4.06%	10.95%	27.15%
2011	0.93%	-0.03%	-1.55%	0.14%	-0.14%	0.42%	0.03%	-3.63%	0.69%	-0.38%	-2.60%	1.68%	-4.48%	14.60%
2010	0.73%	-0.23%	3.52%	3.39%	-2.83%	-1.31%	1.23%	-0.37%	0.91%	1.13%	1.40%	1.89%	9.67%	19.97%
2009	2.07%	1.67%	-0.73%	-0.67%	1.34%	1.13%	-1.93%	2.24%	-1.68%	-0.39%	-2.99%	2.84%	2.75%	9.39%
2008							0.96%	-1.35%	1.40%	3.44%	0.52%	1.39%	6.46%	6.46%

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