



PELARGOS CAPITAL B.V.

Financial Information 2018

The Hague
5 June 2019

Company information

Statutory directors

Orange Dragon Company B.V.
P.P.J. van de Laar (up to August 1, 2018)
Pieter van Putten (from August 1, 2018)
Michael Kretschmer (from June 1, 2018)

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Independent auditor

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Company profile

Pelargos Capital B.V. (hereafter: Pelargos) is an investment boutique with an institutional type infrastructure that provides absolute return type products focused on alpha generation in Asian equity markets. Pelargos was founded in March 2008 with Aegon Asset Management as cornerstone investor. In June 2008 and July 2008 two Dutch domiciled funds, the Pelargos Asia Alpha Fund respectively the Pelargos Japan Alpha Fund were launched. In May 2016 the Pelargos Japan Long Short Value Fund was launched; this is a Cayman domiciled Unit Trust fund, with Elian Trustee (Cayman) Limited as Trustee. The three funds strive for capital growth by taking long and short exposures in securities related to Asian respectively Japanese companies. At the end of 2018, the Management Committee at Pelargos consists of Richard Dingemans (CEO), Pieter van Putten (CFO/COO) and Michael Kretschmer (CIO).

Pelargos, incorporated and domiciled in the Netherlands, is a private limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague under its registered address at Prinses Margrietplantsoen 43, 2595 AM, The Hague. The statutory objectives of the company are:

- to act as a manager of one or more funds for joint account;
- to conduct the management over and to be (managing) director of one or more other investment institutions, companies and legal entities; and
- to invest assets in any other way, whether or not at the risk and expense of third parties; as well as to participate in, to take an interest in any other way in, to conduct the management of other business enterprises of whatever nature, furthermore to finance third parties, in any way to provide security or undertake the obligations of third parties and finally all activities which are incidental to or which may be conducive to any of the foregoing.

Pelargos has been granted the license to manage investment funds (as meant in *Article 2:65, first paragraph, sub a, Wet Financieel Toezicht*) by Autoriteit Financiële Markten on 9 December 2010. As of 22 July 2014, this license has been converted into an AIFMD license. Pelargos has been granted an extension to its license, which enables it to offer additional investment services (as meant in *Article 2:67, 2nd paragraph, sub a, sub b and sub d Wet Financieel Toezicht*) by Autoriteit Financiële Markten as of 1 March 2017.

Summary of 2018

Introduction

The year 2018 was a difficult year for fundamental investment strategies. As a result, funds managed by Pelargos generated negative returns: the Pelargos Japan Alpha Fund lost 13.5%, the Pelargos Asia Alpha Fund lost 9.7% and the Pelargos Japan Long Short Value Fund returned -14.4%. Our assets under management decreased from € 240 million to € 218 million.

Business development

Pelargos was established in 2008 with the strategic backing and long-term committed cornerstone investor Aegon. Since its start Pelargos has built an institutional infrastructure. It supports our fundamental research and risk management framework. It also enables effective reporting and performance attribution analysis to provide transparency for our clients. Pelargos is a member of the Alternative Investment Management Association and our key service providers are best in class partners.

The focus of our teams is on generating performance and raising capital. The main driver of profitability comes from increasing revenues through acquisition of new customers. To support this process, we constantly search for partners with proven distribution capabilities.

Organisation

2018 saw the first year of operations under Mifid II, with the unbundling of research an important project for Pelargos. In early 2018 the company decided to align the level of human resources with its business outlook, which resulted in some reduction of headcount. As of the end of 2018, the company had the equivalent of 8.6 full time employees on its pay roll. (2017: 11.2).

Upon expiration of the contract with the current pension provider Aegon, the company signed a new defined contribution agreement with NN, thus ensuring a continued competitive pension arrangement for its staff.

In 2019, Pelargos has decided to close Pelargos Japan Long Short Value Fund. The fund has not generated the investor interest which had been originally expected.

Pelargos has put a Brexit monitoring program in place in order to evaluate the (potential) impact of Brexit on operations, and has taken corrective action where necessary.

Financials

In 2018 Pelargos realized a loss of € 206,094.

Although still a loss, this result was an improvement over the 2017 net result, and reflects the changes in the organization made during 2018, namely the reduction in headcount to bring expenses in line with revenues. During the second half of 2018, financial results were approaching breakeven on an ongoing basis.

The current assets of Pelargos are sufficient to meet its current short term, current long term and foreseeable near future financial obligations.

The Hague, 5 June 2019

Orange Dragon Company B.V., R.A. Dingemans

P. Van Putten, CFA

M. Kretschmer

Balance sheet as at 31 December 2018

(Before profit distribution)

ASSETS	31 December 2018 €	31 December 2017 €
Fixed assets		
Property and equipment	3,943	9,320
Hardware	8,817	11,684
	12,760	21,004
Current assets		
Accounts receivable	194,310	347,751
Units of participations in Funds	385,610	434,750
Corporate income tax	-	29,482
Current account related parties	171,820	156,327
Other current assets	34,242	30,302
	785,982	998,612
Bank	2,531,723	2,311,857
	2,531,723	2,311,857
Total assets	3,330,465	3,331,473
LIABILITIES	31 December 2018 €	31 December 2017 €
Equity		
Share capital	18,000	18,000
Ordinary share premiums	482,000	482,000
Other reserve	2,209,556	2,730,995
Net Result	-206,094	-521,439
	2,503,462	2,709,556
Long term liability	76,119	115,659
	76,119	115,659
Current		
Tax	48,758	3,767
Other current liabilities	702,126	502,491
	750,884	506,258
Total liabilities	3,330,465	3,331,473

Profit and loss account 1 January - 31 December 2018

P&L	2018 €	2017 €
Performance fee	-	63,569
Management fee	2,209,919	2,264,859
Revenues from fees	2,209,919	2,328,428
Other revenues	-	-
Total revenues	2,209,919	2,328,428
Total costs	-2,366,115	-2,852,412
Investment results	-49,140	3,564
Other income	676	676
Interest	-1,434	-1,695
Result before tax	-206,094	-521,439
Corporate income tax	-	-
Result after tax	-206,094	-521,439

Cash flow statement 1 January - 31 December 2018

CASHFLOW STATEMENT	2018 €	2017 €
Earnings from operations	-156,196	-523,984
Adjustments for		
Depreciation	8,244	7,100
Change in receivables	212,630	-158,206
Change in liabilities	205,086	80,673
Due corporate tax	-	-
	425,960	-70,433
Cash flow from operations	269,764	-594,417
Investment results	-49,140	3,564
Investments in fixed assets	-	-11,481
Cash flow from investments	-49,140	-7,917
Interest	-1,434	-1,695
Dividends paid	-	-
Cash flow from financing	-1,434	-1,695
Other income	676	676
Cash flow from other	676	676
Change in cash	219,866	-603,353

Summary Notes

General

The financial statements are drawn up in accordance with the provisions of Title 9, Book 2 of the Dutch Civil Code and the firm pronouncements in the Dutch Accounting Standards, as published by the Dutch Accounting Standards Board ('Raad voor de Jaarverslaggeving') and the Dutch Financial Supervision Act. The valuation principles and method of determining the result are the same as those used in the previous year.

Accounting policies

- Fixed assets are valued at historical cost including directly attributable costs, less straight-line depreciation based on the expected future life and impairments.
- Receivables are recognised initially at fair value and subsequently measured at amortised cost.
- Pelargos is investor in the Pelargos Japan Alpha Fund and the Pelargos Asia Alpha Fund. The units of participation held are valued against fair value, i.e. the Net Asset Value per participation of the funds as of 31 December 2018. Profits respectively losses due to increases respectively decreases of the value of the Units of Participation are recognized directly in the Profit and Loss account.
- Cash and cash equivalents represent bank balances and deposits with terms of less than twelve months.
- On initial recognition current liabilities are recognised at fair value. After initial recognition long-term liabilities are recognised at fair value.
- Performance fee is accrued when the net asset value of each (sub)class of the Fund exceeds the prevailing high watermark (the highest net asset value on previous financial year ends of the Fund). As per the last Valuation Day of the financial year the actual amount due over that year is calculated for each (sub)class of Participations and any amount due is made payable by the Fund to the Investment Manager.
- Management fees are the monthly fees due from the managed funds.
- Costs are determined on a historical basis and are attributed to the reporting year to which they relate.
- Material fixed assets are depreciated over their estimated useful lives as from the inception of their use.
- Pelargos' agreement with Aegon Levensverzekering N.V., under which the latter grants the post retirement benefits to employees of Pelargos, was discontinued at the end of 2018. Effective January 1, 2019, Pelargos entered into an agreement with a new pension plan provider for its staff to replace Aegon.

Notes to the balance sheet

- Accounts receivable at 31-12-2018 refer to management fees of December 2018 due by the funds managed.
- The financial instruments held by Pelargos are not traded in an active market. The net asset values of the participations is calculated by the Fund Administrator. The value calculation is based on the observable market prices of the underlying assets.
- Cash is not subject to any restrictions.
- The managing board proposed to distribute nil dividend. The net loss of 2018 will be added to the other reserves.
- The long term liability is longer than one year but shorter than 5 years, and refers to deferred variable remuneration.

Notes on the profit and loss account items

- As seeding, large and long term committed investors, affiliated entities related to Aegon Group N.V. who are participants in the Pelargos Japan Alpha Fund and the Pelargos Asia Alpha Fund, receive a full discount on the performance fee.
- The management fee is payable monthly in arrears and due as per the first day of the subsequent month. As seeding, large and long term committed investors, affiliated entities related to Aegon Group N.V. who are participants in the Pelargos Japan Alpha Fund and the Pelargos Asia Alpha Fund received a discount.
- Pelargos 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.
- During the first half of 2019, Pelargos has decided to close Pelargos Japan Long Short Value Fund. The fund has not generated the investor interest which had been originally expected. There were no other subsequent events in the period post December 31, 2018.