

### FACTSHEET

#### Performance Returns

The OTS Asia Opportunity UCITS Fund returned -2.28% in the month of May. The Fund's performance can be partly attributed to a fall in our consumer sector holdings in Greater China.

#### Investment Objective & Strategy

The OTS Asia Opportunity UCITS Fund is a Pan-Asian, fundamentally focused long/short equity fund seeking to preserve capital and maximize returns under strict value investing discipline. As a value investor, OTS capitalizes on certain themes in the Asian markets, which are inefficient and volatile with limited sell-side coverage. The fund looks for alignment of interests and takes advantage of a divergence in business quality between companies with strong fundamentals and competitive advantages. OTS then seeks companies trading at significant discounts or premiums to justifiable intrinsic values.

#### Investment Commentary

This month we turn our attention to one of our core long holdings, a Pachinko operator in Japan listed in Hong Kong.

The most popular leisure activity in Japan is Pachinko, a mechanical game that resembles an upright pinball machine but with characteristics of a slot machine. The object of the game is to collect as many Pachinko balls as possible, which can then be redeemed for prizes or cash offsite, making it a legalized form of gambling. At its peak in the 1990's, Pachinko accounted for over 5% of the country's GDP – today, the national pastime still accounts for over 50% of total entertainment revenue in Japan with annual revenues of US\$200 billion.

Over the past decade, the Pachinko industry has gone through a period of industry consolidation. At its peak, there were close to 20,000 Pachinko halls in Japan run by over 8,000 independent operators, two-thirds of which owned only 1-2 shops. In recent years, industry maturation has forced operators to be more efficient run at more favorable economies of scale. Today, the number of Pachinko operators has halved and the total number of halls has fallen to 14,000, a trend which has benefited the larger Pachinko operators.

The largest Pachinko operator in Japan – based on store count – is a company listed on the Hong Kong Stock Exchange called Dynam Japan Holdings. Dynam was founded in 1967 and has grown its halls under management from just two to nearly 400 today. Dynam has consistently delivered high EBITDA margins in the mid-20s due to its economies of scale, compared to less than 10% for typical operators. The largest component of Pachinko operators' operating expenses are the cost of the Pachinko machines themselves, which can cost US\$2,000-3,000 each and are typically replaced annually. As the market leader, Dynam has the ability to extract substantial volume discounts from suppliers when compared to smaller rivals. The company also maintains a network of 16 distribution centers located across the country that allows it to save on distribution costs as machines are shuffled between halls. Another source of cost advantage for Dynam is its focus on efficient operations. Dynam utilizes a standard design for its Pachinko halls, which results in cost efficiencies associated with procuring construction materials and shorter lead time for hall development.

The best-in-class operating model has allowed Dynam to become the "Walmart of Pachinko" of sorts. Not only did the company develop the chain-store format for Pachinko, Dynam was also a pioneer in lowering the cost of playing games to 1 yen per ball from traditional games that required at least 4 yen per ball, allowing it to attract new demographics of customers.

Dynam is a family-run business originally founded by Yohei Sato, the father of Yoji Sato and his younger brother Kohei, who now run the business and maintain 70% of the company's shares. The brothers took over the business from their father in 1970 and have since transformed it into the largest Pachinko operator in Japan. The brothers' goal is to reach 1,000 stores by 2023.

Despite the favorable fundamentals, Dynam currently trades at an EV-to-EBITDA ratio of 4x and a price-to-book ratio of 0.90x. The company has a market capitalization of US\$1.1 billion and generates free cash flow of US\$200 million, 90% of which it pays out in dividends. Last year, Dynam announced a stock repurchase program, under which the company will buy back up to 10% of its outstanding shares. We like the long-term prospects of the company and remain invested alongside the owner-operators.

As always, we thank you for your long-term support.

### THE MANAGER

## OTS CAPITAL MANAGEMENT



**Tony Hsu** began his career at Foxconn International Holdings. After obtaining an MBA in Finance from The Wharton School at the University of Pennsylvania, Mr. Hsu joined Dalton Investments as a Portfolio Manager for Dalton's Asian equity strategies and a team of equity analysts based in Shanghai. He is an Adjunct Professor of Finance at the China European International Business School (CEIBS) Shanghai, and National Taiwan University (NTU), Taipei.

#### FUND FACTS

<b>Structure</b>	UCITS Fund
<b>Domicile</b>	Ireland
<b>Liquidity</b>	Weekly
<b>Fund AUM</b>	\$19.8 million
<b>Inception</b>	2 <sup>nd</sup> October, 2015
<b>Share Class</b>	<b>Class A/Class A Pooled</b>
<b>Currency</b>	EUR/GBP/CHF/USD
<b>Mgt. Fee</b>	1.75%
<b>Perf. Fee</b>	17.5%
<b>Min Init. Sub.</b>	1,000,000
<b>ISIN Codes</b>	EUR: IE00BYMM8523/IE00BYMM9N76 USD: IE00BYMM9935/IE00BYMMBF33 CHF: IE00BYMM8N02/IE00BYMMB426 GBP: IE00BYMM8H42/IE00BYMMB087
<b>Share Class</b>	<b>Class B/Class B Pooled</b>
<b>Currency</b>	EUR/GBP/CHF/USD
<b>Mgt. Fee</b>	2.00%
<b>Perf. Fee</b>	20%
<b>Min Init. Sub.</b>	100,000
<b>ISIN Codes</b>	EUR: IE00BYMMBP31/IE00BYMMC838 USD: IE00BYMMB239/IE00BYMMCT44 CHF: IE00BYMMBT78/IE00BYMMC81 GBP: IE00BYMMBS61/IE00BYMMC808

#### Risk Metrics

<b>Exposure and Risk Summary</b>	<b>(% of NAV)</b>
Long Exposure	89.7%
Short Exposure	-20.2%
Gross Exposure	109.9%
Net Exposure	69.5%
No of Longs	35
No of Shorts	10

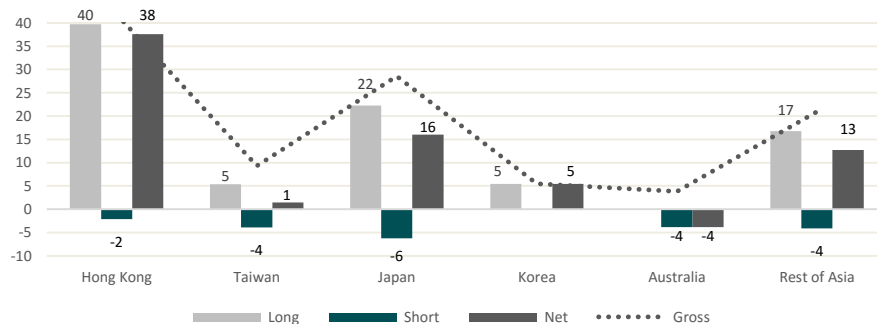
### USD Class A Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2016	-3.22%	2.80%	3.57%	0.88%	-2.28%								1.58%
2015	-	-	-	-	-	-	-	-	-	-0.45%	-1.31%	-0.72%	-2.46%

The performance figures quoted above represent the performance of the OTS Asia Opportunity UCITS Fund since its launch on 2<sup>nd</sup> October 2015. These performance figures refer to the past and past performance is not a guarantee of future performance or a reliable guide to future performance.

### Composition of UCITS Fund

#### Geographic Analysis (% of NAV)



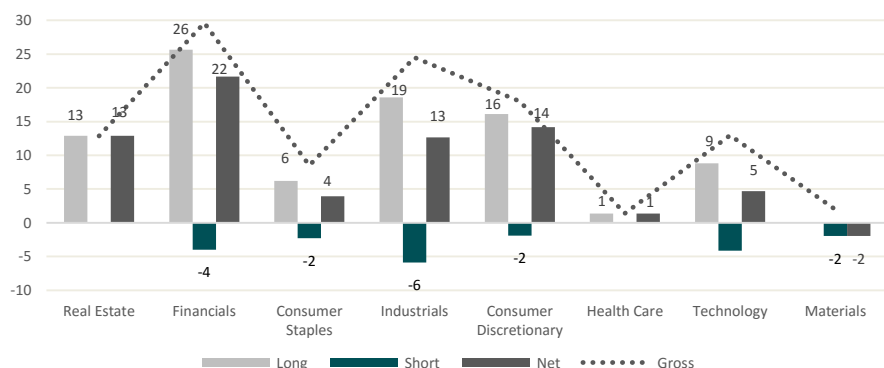
#### Top 5 Longs (% of NAV)

Emperor International Holdings	5.2%
Allied Properties HK Ltd	5.1%
Asia Standard International Group	4.7%
Far East Consortium International	4.6%
Berjaya Corp Bhd	4.1%
<b>Total</b>	<b>23.7%</b>

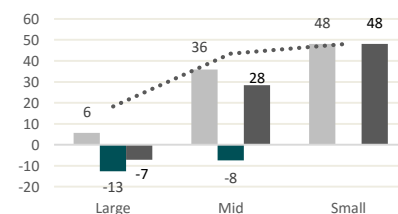
#### Top 5 Shorts (% of NAV)

Japanese Retailer	-2.3%
Australian Airports Operator	-2.2%
Global Semiconductor Firm	-2.2%
Hong Kong Railways Operator	-2.1%
Japanese Exchange Operator	-2.0%
<b>Total</b>	<b>-10.8%</b>

#### Sector Analysis (% of NAV)



#### Market Cap Analysis (% of NAV)



### Contact Details

#### Investor Contact

**ML Capital Ltd**  
29 Farm Street  
London, W1J 5RL, UK  
T: +44 20 3709 4510  
investorrelations@mlcapital.com

#### Investment Manager

**ML Capital Asset Management Ltd**  
26 Fitzwilliam Street Upper  
Dublin 2, Ireland  
T: +353 1 535 0912  
investorrelations@mlcapital.com

#### Sub Investment Manager

**OTS Capital Management Ltd**  
Jardine House, 1 Connaught Place, Suite 3913  
Central, Hong Kong  
T: +852 3468 8940  
info@otscapital.com

### Disclaimer

**Risk Warning:** Past performance is not a reliable indicator of future results, prices of investments and the returns from them may fall as well as rise. Investments in equities are subject to market risk and, potentially, to currency exchange risk. The OTS Asia Opportunity UCITS Fund (the "Fund") may use higher leverage and financial derivative instruments as part of the investment process. The distribution of this report does not constitute an offer or solicitation. Any investment in the Fund should be based on the full details contained in the Fund's Supplement Prospectus and Key Investor Information Documents which together with the Montlake UCITS Platform ICAV Prospectus may be downloaded from the Montlake website ([www.montlakeucits.com](http://www.montlakeucits.com)). Information given in this document has been obtained from, or based upon, sources believed by us to be reliable and accurate although neither ML Capital nor OTS Capital Management Ltd accepts liability for the accuracy of the contents. OTS Capital Management Ltd is authorised and regulated by the SFC. ML Capital does not offer investment advice or make recommendations regarding investments. The Manager of the Fund is MLC Management Ltd, a company regulated by the Central Bank of Ireland. The Montlake UCITS Platform ICAV is registered and regulated as an open-ended Irish collective asset-management vehicle with segregated liability between sub-Funds formed in Ireland under the Irish Collective Asset-management Vehicles Act 2015 and authorised by the Central Bank as a UCITS pursuant to the UCITS Regulations. ML Capital Asset Management Ltd is regulated by the Central Bank of Ireland. This notice shall not be construed as an offer of sale in the Fund or in any other fund managed or advised by OTS Capital Management Ltd. The state of origin of the Fund is the Republic of Ireland. This document may only be distributed in or from Switzerland to qualified investors within the meaning Art. 10 Para. 3, 3bis and 3ter CISA. The Representative in Switzerland is ACOLIN Fund Services AG, Stadelhoferstrasse 18, CH-8001 Zurich, whilst the Paying Agent is NPB Neue Privat Bank AG, Limmatquai 1/am Bellevue, P.O. Box, CH-8022 Zurich. The basic documents of the Fund as well as the annual report may be obtained free of charge at the registered office of the Swiss Representative.

Issued and approved by ML Capital Asset Management Ltd. Authorised and Regulated by the Central Bank of Ireland