OTS Asia Opportunity UCITS Fund

Pan Asia Long/Short Equities

August 2016

FACTSHEET

Performance Returns

The OTS Asia Opportunity UCITS Fund returned 1.14% in the month of August. The Fund's performance can be partly attributed to returns on our industrial sector holdings and from our short book in Japan.

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 short holdings, a US-based manufacturer of semiconductor devices.

Over the past decade, smartphones have been the primary growth driver for semiconductor manufacturers as units sold grew from 100 million annually in 2007 - when the first iPhone was launched - to 1.4 billion units last year. Manufacturers expected growth to continue unabated until harsh realities began to set in. Smartphone penetration in developed markets has reached over 70% in countries such as the United States and demand from emerging markets such as China has not been sufficient to sustain the torrid growth pace of recent years. In the first quarter of this year, there were signs that the party was coming to an end. Shipments in the first quarter showed that units actually declined year-over-year. Apple reported its first quarterly sales decline in 13 years with Tim Cook himself admitting that the market had "stopped growing".

One of the largest suppliers of semiconductor components to global smartphone makers is a chipmaker based in Dallas, Texas with a market capitalization of $70 billion. The company generates $13 billion of revenue per year, 70% of which is derived from Asia. While the company operates in a variety of end user markets, its largest segment is consumer electronics and most susceptible to the smartphone slowdown. 75% of the firm's revenue is derived from analog processors, chips that convert real-world inputs such as sound, temperature, pressure, images into digital signals that can be processed by devices such as smartphones.

On the surface, financial indicators would suggest that it is all steam ahead for the Dallas-based behemoth. Since 2008, earnings-per-share at the have doubled, which equates to average growth of 15% per annum. In general, solid earnings growth is the result of commiserate strong top-line growth, but this does not appear to be the case here. Upon closer inspection, revenue at the chipmaker is actually down 7% over the past 5 years and has not grown in over a decade. Most of the chipmaker's profit growth has come from incremental gross-profit margin improvement and cost cutting but these efficiency gains may have run their course. The company's operating profit margin is now not only highest in its own history, but also the highest amongst major peers including Santa Clara-based Intel - we question whether the trend can be sustained.

Another way in which the chipmaker has been able to create the appearance of earnings growth is by buying back shares. Over the past decade, the firm has spent nearly $25 billion of its cash flow on buying its own shares in the market and effectively reducing its share count by 60%. Share buybacks are generally favorable for shareholders because they raise earnings-per-share but this particular chipmaker may become a victim of its own success. With organic revenue growth in negative territory, investors now expect that they company pay out all of its free cash flow in the form buybacks and dividends in order to support its valuation. The investor favorite now trades at a price-to-earnings ratio of 22 times and a price-to-book ratio of 7 times. The stock price has risen unabated for the past 5 years and we believe the risk-reward is now skewed to the downside.

Based on our calculations, the company must continue to deliver high single digit earnings growth to justify its lofty multiples. While this may have been achievable during the smartphone boom years, the company's top line may now be vulnerable. Nearly 20% of its sales are derived from legacy products such as DLP projector chips, calculators and legacy wireless products, categories which are all in decline. 31 of the 33 analysts covering this stock rate it as a buy or a hold but we believe the trajectory for this company is downward and have taken a short position. 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

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Weekly
Fund AUM	$20.2 million
Inception	2nd October, 2015
Share Class	**Class A/Class A Pooled**
Currency	EUR/GBP/CHF/USD
Mgt. Fee	1.75%
Perf. Fee	17.5%
Min Init. Sub.	1,000,000
ISIN Codes	EUR: IE00BYMM8523/IE00BYMM9N76
	USD: IE00BYMM9935/IE00BYMMBF33
	CHF: IE00BYMM8N02/IE00BYMMB426
	GBP: IE00BYMM8H42/IE00BYMMB087
Share Class	**Class B/Class B Pooled**
Currency	EUR/GBP/CHF/USD
Mgt. Fee	2.00%
Perf. Fee	20%
Min Init. Sub.	100,000
ISIN Codes	EUR: IE00BYMMBP31/IE00BYMMC838
	USD: IE00BYMMBZ39/IE00BYMMCT44
	CHF: IE00BYMMBT78/IE00BYMMCN81
	GBP: IE00BYMMBS61/IE00BYMMCF08

Risk Metrics

Exposure and Risk Summary	**(% of NAV)**
Long Exposure	78.8%
Short Exposure	-22.2%
Gross Exposure	101.0%
Net Exposure	56.7%
No of Longs	22
No of Shorts	10

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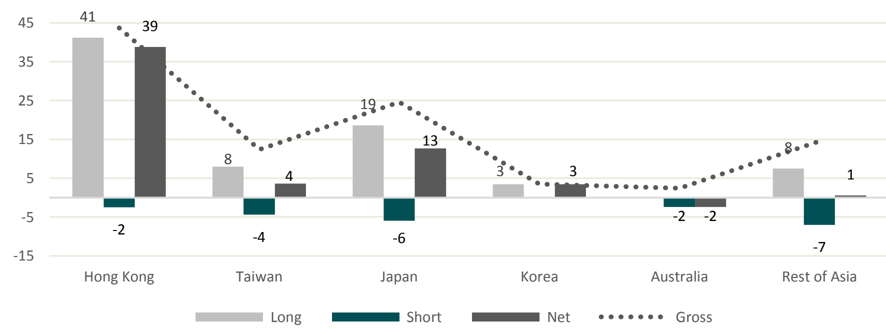
USD Class A Performance

	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%	-1.88%	2.90%	1.14%					**3.72%**
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 2nd 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)



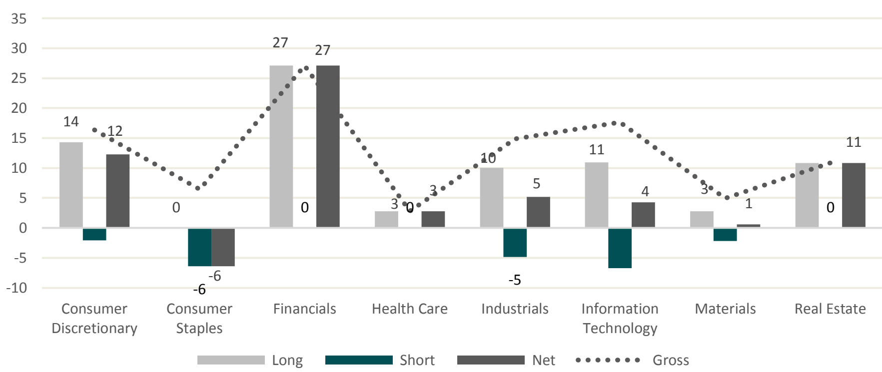
Top 5 Longs (% of NAV)

Asia Standard International Group	5.7%
Allied Properties HK Ltd	5.5%
Far East Consortium International	5.3%
Ralec Electronic Corp	5.3%
Dah Sing Financial Holdings	5.3%
Total	**27.1%**

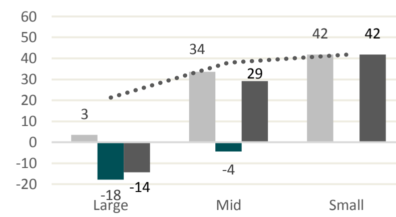
Top 5 Shorts (% of NAV)

Chinese Snack Food Producer	-2.5%
Hong Kong Railways Operator	-2.5%
Australian Airports Operator	-2.4%
Global Semiconductor Firm	-2.4%
Taiwanese Semiconductor Firm	-2.2%
Total	**-12.1%**

Sector Analysis (% of NAV)



Market Cap Analysis (% of NAV)



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