OTS Asia Opportunity UCITS Fund

Pan Asia Long/Short Equities

September 2016

FACTSHEET

Performance Returns

The OTS Asia Opportunity UCITS Fund returned 0.62% in the month of September. The Fund's performance can be partly attributed to returns on our real estate sector holdings in Hong Kong.

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 will be revisitng a Japan-based stock exchange operator, a name which has been the topic of previous discussions.

For those who recall, the bourse in question is a merger of the Tokyo and Osaka exchanges and the largest operator in Asia. The quasi-state linked firm was originally established by the Finance Minister nearly 140 years ago and still retains its deep political affiliations. We had previously shorted the name for the reasons discussed in the October 2015 newsletter: poor alignment of interests with shareholders, coupled with our thesis that unrealistic expectations priced had been priced into the stock. We covered our short position in late June when the stock reached our target price but have recently reentered the position with renewed conviction.

On the surface it may appear that underlying fundamentals are on the rise. Revenues and profits have increased five-fold and eight-fold respectively since 2012. The trading velocity of Japanese cash equities – as measured by the total trading value divided by the total market capitalization of the Japanese stock market – is near an all-time high of 2x, almost double of the equivalent metric of the New York Stock Exchange. Turnover at the bourse – as measured by Average Daily Turnover (ADT) of cash equities – has increased from less than 1.5 trillion yen prior to 2012 to over 3 trillion yen at the end of last year. To put that figure in perspective, during the bubble peak in 1989 - when Japan's stock market capitalization was over double what it is today - the ADT was only 1 trillion yen.

One factor that has underpinned the meteoric rise in ADT has been the Abenomics-driven buying binge from overseas investors. Prior to 2012, foreigners represented less than 50% of brokerage trading but this ratio has increased to 70%. We question whether this trend is sustainable – so far this year, foreigners have already sold 7 trillion yen of Japanese equities, approximately half of their aggregate purchases since Abenomics began.

Foreigners have not been the only reason for the bourse's good fortunes of late. The business of co-location, that is, housing computers owned by high-frequency trading (HFT) firms in the same premises as the exchange's, has become rather lucrative. As the name would imply, high-frequency trading primarily benefits the exchange by propping up overall trading volumes – prior to 2012, co-location orders on the Japanese exchange represented less than 40% of volume but today that figure is nearly 80%. This has served as a near-term boon for the exchange as two-thirds of its revenues are tied to trading volume of cash equities. Nonetheless, we question whether the current elevated proportion of co-location orders represents a normalized state of affairs for the Japanese exchange or is this just a "flash" in the pan. In the US, high-frequency trading peaked in 2009 at two-thirds of trading volume, only to drop by half 3 years later.

Despite the headwinds, the stock price has risen by 50% since June on possibly misguided expectations of renewed growth. ADT for July and Aug has fallen to 2.5 trillion yen and 2.3 trillion yen, substantially lower than the 3.1 trillion yen posted for the April to June quarter. The exchange operator now trades at a price-to-book of 3.5x and a price-to-earnings multiple of 20x. The majority of the sell-side analysts still rate this name a Buy or a Hold. We, however, see a downward sloping trajectory for this name and have re-initiated a short position.

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	\$20.4 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	84.7%
Short Exposure	-24.9%
Gross Exposure	109.0%
Net Exposure	59.0%
No of Longs	24
No of Shorts	11

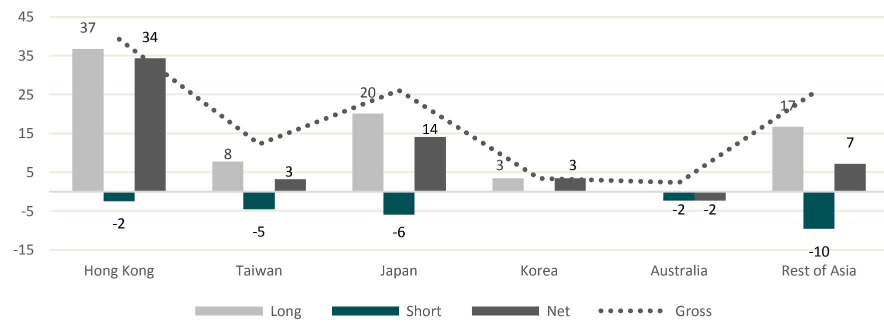
USD Class A Performance

	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%	0.62%				**4.36%**
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)



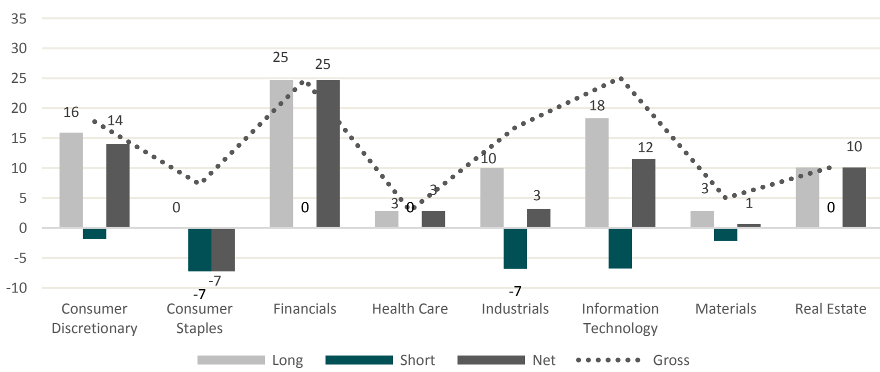
Top 5 Longs (% of NAV)

Taiwanese Electronics Manufacturer	5.1%
Hong Kong Property Firm	5.1%
Chinese Internet Firm	5.1%
Hong Kong Financial Firm	5.1%
Hong Kong Property Firm	5.0%
Total	**25.4%**

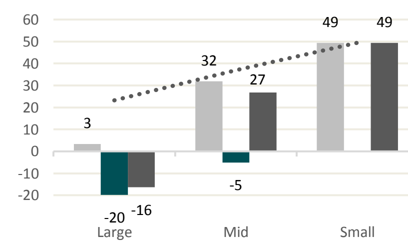
Top 5 Shorts (% of NAV)

Chinese Snack Food Producer	-3.1%
Hong Kong Railways Operator	-2.4%
Global Semiconductor Firm	-2.4%
Taiwanese Semiconductor Firm	-2.4%
Australian Airports Operator	-2.3%
Total	**-12.7%**

Sector Analysis (% of NAV)



Market Cap Analysis (% of NAV)



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