

FACTSHEET

Performance Returns

The OTS Asia Opportunity UCITS Fund returned -3.22% in the month of January. The Fund's negative performance can be partly attributed to the selloff in our Hong Kong listed real estate-related holdings.

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

In this month's newsletter, we would like to discuss one of our core long holdings in Japan, **Avex Group Holdings**. Avex – an acronym for "Audio Visual Expert" – operates the largest record label in Japan and was founded in 1988 by legendary producer *Max Matsuura*. The group began as an importer of European dance music and gradually strengthened its roster of local artists over the years. Avex now controls nearly 20% of the pre-recorded music industry in Japan, the second largest in the world with US\$2.6 billion in annual sales.

The Group's largest segment is its Music unit, which generates 40% of the Group's JPY170 billion in annual revenue. *Avex Trax* – as the record label is known – owes its success to its prized music catalog, which includes mega-acts such as *Hamasaki Ayumi* and *Suzuki Ami*. In contrast to other international markets, Japan's music industry is dominated by domestic artists, which account for 90% of sales – this favors home-grown labels against foreign rivals. Also bucking the trend in Japan is the dominance of physical compact discs, which still account for nearly 90% of music sales, compared to less than 30% in the US. The resilience of physical media along with steady growth of digital music delivery has supported Avex revenues in recent years.

Avex has achieved average top line growth of 9% over the past 10 years but investors have shunned the stock in recent months as operating profits have come under pressure. A little due diligence would reveal, however, that the main culprit has been non-recurring expenses related to the redevelopment of its headquarters building located in *Aoyama*, home to some of the most expensive land in Tokyo. In 2013, the company made a decision to redevelop the aging office into a new 18-story tower. This resulted in additional expenses in the form of accelerated depreciation as the existing building was demolished, as well as additional rental expense to temporarily house its workers. Had these expenses been excluded, last year's operating profits would have actually grown on a year-over-year basis. We are confident that operating performance will improve once the new building is completed in 2017.

On a some-of-the-parts basis, we feel that Avex is substantially undervalued. Our research suggests the value of its headquarters site, its net cash position and its music business already exceeds its JPY55 billion market cap by over 40%. Yet the shares trade at just 4x EV-to-EBITDA and offer a dividend yield of 4%. While this alone would make a compelling case to purchase Avex's shares, we have yet to touch on the Group's video-on-demand (VOD) business.

Avex is the largest operator of Internet-based VOD services in Japan with over 6 million subscribers, 6 times that of Hulu Japan. Avex's flagship subscription service is called *dTV*, which in addition to offering Hollywood staples, *dTV* produces the best exclusive Japanese VOD original content – analogous to Netflix's positioning in the US. Moreover, Avex can leverage its entire library of music video and live performance catalog in order to differentiate its service from competitors. VOD in Japan is currently underpenetrated but we believe that Avex is well-positioned to benefit as the market shifts over time. If we valued Avex's VOD business using Netflix's valuation metric of US\$700 per subscriber, the Avex's VOD business alone would be worth JPY500 billion yen, 9 times its current market cap.

Founder Max Matsuura continues to serve as President/CEO and maintains a significant ownership in the firm. The company also continues to carry out share buybacks, repurchasing 2% of the outstanding shares in 2015 alone. We remain invested alongside the owner-operator and we thank you for your long-term support.

USD Class A Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2016	-3.22%												-3.22%
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.

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

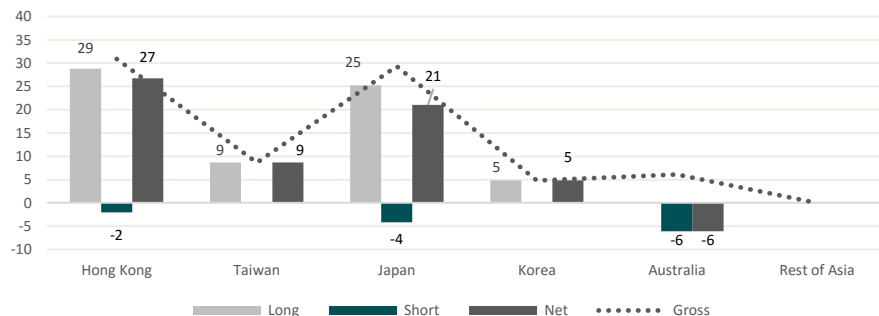
Structure	UCITS Fund
Domicile	Ireland
Liquidity	Weekly
Fund AUM	\$19 million
Inception	2 nd October, 2015
Share Class	Class A/Class A Pooled
Currency	EUR/GBP/CHF/USD
Mgt. Fee	1.75%
Perf. Fee	17.5%
Min Init. Sub.	1,000,000
ISIN Codes	EUR: IE00BYMM8523/IE00BYMM9N76 USD: IE00BYMM9935/IE00BYMMBF33 CHF: IE00BYMM8N02/IE00BYMMB426 GBP: IE00BYMM8H42/IE00BYMMB087
Share Class	Class B/Class B Pooled
Currency	EUR/GBP/CHF/USD
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Risk Metrics

Exposure and Risk Summary	(% of NAV)
Long Exposure	76.7%
Short Exposure	-18.1%
Gross Exposure	94.8%
Net Exposure	58.5%
No of Longs	32
No of Shorts	9

Composition of UCITS Fund

Geographic Analysis (% of NAV)



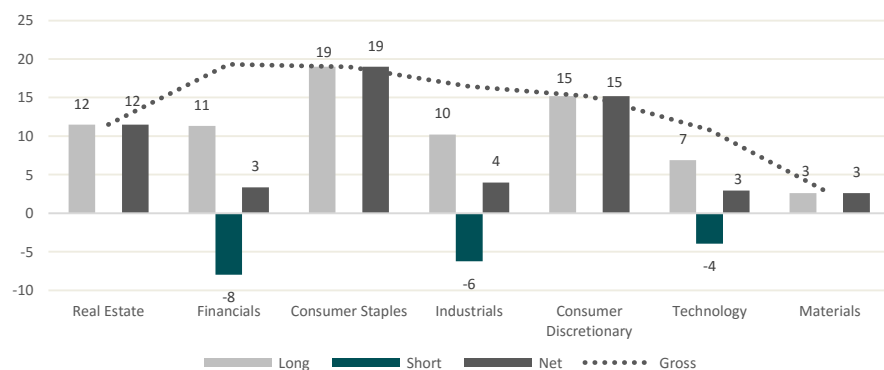
Top 5 Longs (% of NAV)

Coca-Cola West	3.1%
Ito En Limited	3.1%
House Foods Group	2.9%
Tohokushinsha Film Corp	2.8%
Gree Inc	2.8%
Total	14.8%

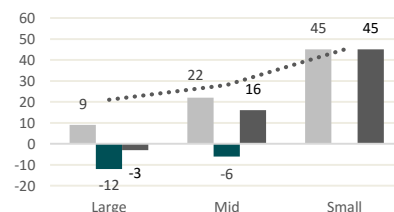
Top 5 Shorts (% of NAV)

Japanese Exchange Operator	-2.3%
Australian Airports Operator	-2.1%
Global Telecom Manufacturer	-2.1%
Hong Kong Railway Operator	-2.1%
Australian Airline	-2.0%
Total	-10.6%

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
info@mlcapital.com

Investment Manager

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

Sub Investment Manager

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

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