OTS Asia Opportunity UCITS Fund

Pan Asia Long/Short Equities

February 2016

FACTSHEET

Performance Returns

The OTS Asia Opportunity UCITS Fund returned 2.80% in the month of February. The Fund's 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 a short position we hold in Greater China. One of the largest operators of mass transit rail in Asia is a state-owned enterprise based in China's Special Administrative Region (SAR) of Hong Kong. The rail operator was established in 1975 by the government and remains three-quarters controlled by the Hong Kong government, which ultimately answers to officials in Beijing. Members of its management and board of directors retain deep political ties to the government and its constituents.

While allegiance to the state is honorable, the interests of SOEs are often more closely aligned with politicians than with shareholders. As the largest operator of public transportation services in Hong Kong, its primary objective is to provide affordable mass transit, a necessity for maintaining social stability in the SAR. Hong Kong's relationship with the Mainland remains fragile, as evidenced by the ongoing incidents of politically-motivated demonstrations and riots. The government is therefore careful about not allowing the state-owned transit operator to become too profitable and closely regulates fare changes – Beijing can ill-afford to risk further political instability in the region simply to placate shareholders of their state-owned firms. The core Transport operations represents approx. 40% of the SOEs HK$40 billion in annual revenue. While the unit generates steady cash flow, growth is hard to come by and generally limited to fare increases. Unfortunately, basic fares in Hong Kong have not been allowed to change since 2012 and fare increases are strictly regulated by a CPI-based formula. Moreover, the transit operator is required to return a portion of fares to patrons in the form of fare concessions each year – over HK$2 billion.

As a quasi-arm of the government, the SOE's interests are often driven by political motivations rather than economic ones. In the company's core Transport business, some of the company's rail projects are owned outright while others are classified as "entrusted" projects, in which the company provides project management services but funding and ownership belong to the government. The company is only compensated enough to cover its costs in these situations and cannot refuse such projects regardless of their economic merits since it itself is a quasi-arm of the government. One high profile example is the Express Rail link, which is intended to connect Hong Kong with the Mainland's high speed rail system. The project has been widely criticized by the media in Hong Kong as a "white elephant" due to the numerous preexisting transit options to Shenzhen and the relatively remote location of the train's terminal station in the suburbs of Guangzhou. Moreover, under the SOE's stewardship, the project has been running two years behind schedule and is HK$20 billion over budget thus far. The government has publicly blamed the transit operator as the scapegoat and has threatened legal action to recoup cost overruns.

To make matters worse, the SOE's other business units may also be heading into murky waters. The SOE secondary business is that of a landlord – it leases out the shop and mall space attached to its railway stations. In recent years, revaluation gains on its investment properties have contributed a substantial portion of its profit – in FY14 for example, revaluation gains alone accounted for HK$4 billion or 25% of the SOE's profits and through the first half of FY15, this figure remained elevated at 16%. However, we question whether this trend was sustained into the second half of the year. The company's management has also reported fallen rental reversion, which will also negatively impact the transit operator's performance.

Despite the headwinds, the SOE continues to trade at historical highs. The company has a market capitalization of over HK$200 billion and trades at a 20x price-to-earnings ratio and a 30% premium to book value. 10 of the 14 analysts that cover this name rate it as a buy or a hold but the trajectory we see for this state-owned firm is a downward sloping one. We have entered a short position to take advantage of the opportunity. 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%	2.80%											**-0.51%**
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	$19.4 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	77.9%
Short Exposure	-16.9%
Gross Exposure	94.7%
Net Exposure	61.0%
No of Longs	37
No of Shorts	9

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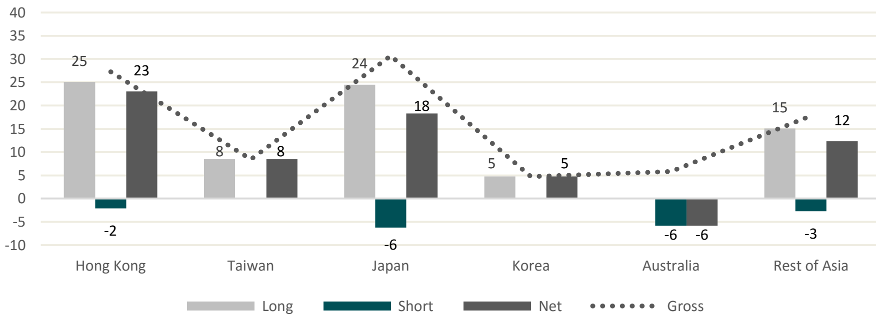
Composition of UCITS Fund

Geographic Analysis (% of NAV)



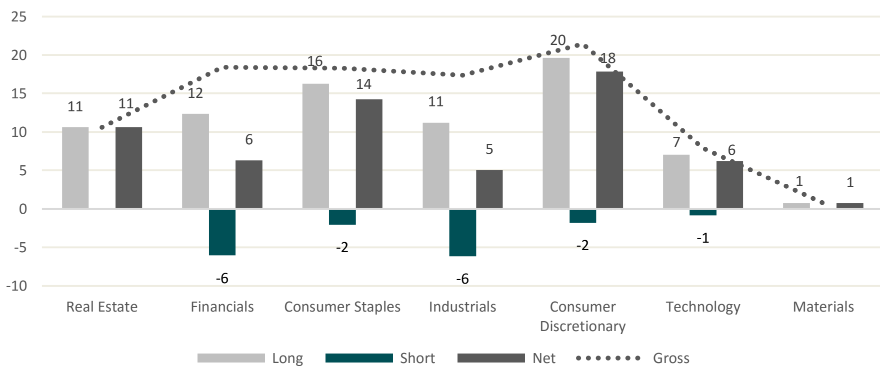
Top 5 Longs (% of NAV)

Dynam Japan	4.0%
Dah Sing Financial Holdings	3.3%
Super Group Ltd	3.2%
Ito En Ltd	3.0%
Asatsu-DK	3.0%
Total	**16.5%**

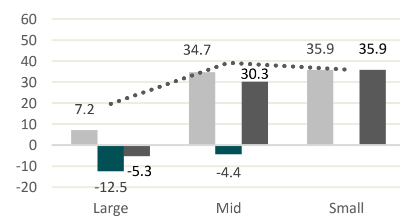
Top 5 Shorts (% of NAV)

Japanese Exchange Operator	-2.4%
Hong Kong Railway Operator	-2.1%
Australian Airports Operator	-2.1%
Japan Retail Operator	-2.0%
Australian Airline	-2.0%
Total	**-10.6%**

Sector Analysis (% of NAV)



Market Cap Analysis (% of NAV)



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