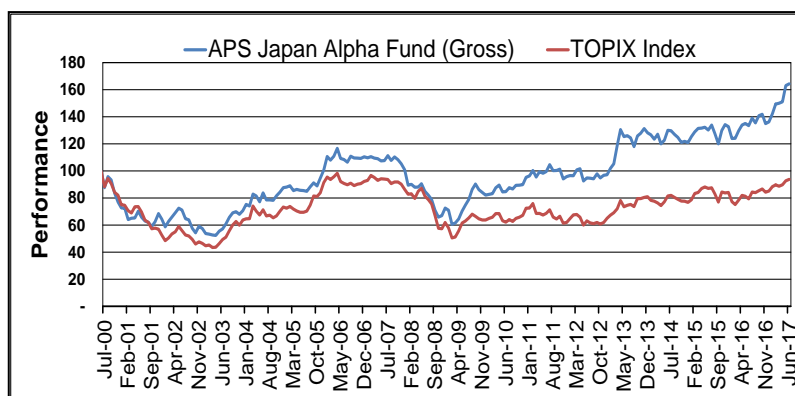


APS Asset Management is a Singapore headquartered fund manager with research offices in China and Japan as well as a client servicing office in New York. The firm was founded in 1995 by its CIO, Wong Kok Hoi. The Fund seeks capital appreciation over a medium to long term market cycle by investing in stocks of companies listed on the Japan Stock Exchange.

PERFORMANCE OVERVIEW



Fund returns are cumulative and are gross of management and performance fees.

The net returns are net of all fees and charges.

Benchmark: TOPIX Index

\*Annualized returns are the average annual compounded returns.

Inception Date: July 1, 2000.

| Period                     | Fund (%) |       | Benchmark | Excess (%) |       |
|----------------------------|----------|-------|-----------|------------|-------|
|                            | Gross    | Net   | (%)       | Gross      | Net   |
| June 2017                  | 0.75     | 0.75  | 1.15      | -0.40      | -0.41 |
| 2Q 2017                    | 9.48     | 8.74  | 5.68      | 3.80       | 3.06  |
| YTD 2017                   | 20.55    | 18.79 | 10.18     | 10.37      | 8.61  |
| <b>Annualized Returns*</b> |          |       |           |            |       |
| 1-Year                     | 23.11    | 21.60 | 18.13     | 4.98       | 3.46  |
| 3-Year                     | 8.11     | 6.92  | 4.80      | 3.30       | 2.11  |
| 5-Year                     | 11.62    | 10.54 | 8.25      | 3.37       | 2.29  |
| 7-Year                     | 9.93     | 8.68  | 6.05      | 3.87       | 2.63  |
| 10-Year                    | 4.31     | 3.20  | -0.02     | 4.33       | 3.22  |
| Since Inception            | 2.96     | 2.05  | -0.38     | 3.34       | 2.42  |

PORTFOLIO ANALYSIS (AS % OF AUM)

TOP FIVE LARGEST HOLDINGS

|                         |     |
|-------------------------|-----|
| Tsumura & Co            | 6.3 |
| Ai Holdings Corporation | 5.9 |
| SCSK Corporation        | 5.4 |
| Eiken Chemical          | 5.2 |
| Open Door Incorporation | 4.8 |

MARKET CAPITALIZATION

|                        |      |
|------------------------|------|
| >USD 10 bil            | 20.4 |
| USD 5 bil – USD 10 bil | 7.3  |
| USD 2 bil – USD 5 bil  | 21.0 |
| USD 500 mn – USD 2 bil | 26.7 |
| <USD 500 mn            | 19.8 |
| Cash                   | 4.9  |

SECTOR WEIGHTINGS

|                        |      |
|------------------------|------|
| Information Technology | 32.7 |
| Industrials            | 22.2 |
| Health Care            | 21.8 |
| Consumer Discretionary | 12.3 |
| Consumer Staples       | 2.4  |
| Real Estate            | 2.3  |
| Materials              | 1.5  |
| Cash                   | 4.9  |

Source: APS, Bloomberg and Wilshire.

APS Asset Management Pte Ltd

3 Anson Road, #23-01 Springleaf Tower, Singapore 079909 Tel: (65) 6333 8600  
Fax: (65) 6333 8900 E-mail: cs@aps.com.sg Website: www.aps.com.sg

INVESTMENT PERFORMANCE & NOTABLE DEVELOPMENTS

The APS Japan Alpha Fund gained +9.48% in the second quarter, outperforming the benchmark by 3.80 percentage points. YTD, the fund rose +20.55%, outperforming the benchmark by 10.37 percentage points.

In the 2<sup>nd</sup> quarter, we continued to exploit “perception gaps” between APS’ and the market’s assessment of specific stocks. We initiated positions in stocks such as Nihon Trim, where our rigorous research found that the stocks are trading far below their intrinsic value. On the other hand, we took profit on positions that reached our target price and we will continue to sell off stocks with narrowing “perception gaps”. Our analyses are presented in greater detail below.

**Tsumura**, a major manufacturer of traditional Japanese medicine with 80% market share in Japan, was the biggest contributor to the fund’s performance in the quarter. We believe that investors are beginning to take notice of the company as the industry has grown continuously thanks mainly to increasing awareness among physicians. At the same time, the overall prescription medicine market has struggled due to severe government price cuts and pressure from generic drugs. Also, Tsumura posted strong 4Q results with better-than-expected improvement in gross margin, which is an aspect investors have long been concerned about. The improvement was driven by more cost-effective sourcing of raw materials and by yen appreciation.

**Digital Arts**, a growing cyber security software company, was the second biggest contributor during the quarter. We increased the stock’s weighting in April and the stock rose by +29% in May because investors are gaining confidence in the company’s future prospects. Digital Arts’ sales and operating profit grew +26% and +81% respectively in FY2016. Further growth catalysts will come from Digital Arts’ expansion into the market for software protecting against external attacks. This segment is 5x larger than Digital Arts’ current area of focus, which is software for internally originated attacks. We believe the company will continue to ride on the trend of structural demand for cyber security in Japan.

**Ai Holdings** was another major contributor during the quarter. The company is growing through aggressive M&As led by its visionary founder and CEO, Mr. Hideyoshi Sasaki. Ai Holdings has several high quality businesses such as surveillance cameras for apartments, cutting machines for consumers, instant card-issuing machines for banks, etc. We increased the stock’s weighting in February as we believe it was trading at an attractive price given its intrinsic value, and indeed the stock price rebounded by +12% in March and a further +14% during the April-to-June quarter reflecting its strong fundamentals.

**NuFlare Technology**, a small cap, highly advanced semiconductor equipment maker, was a detractor in the April-to-June quarter. We initiated a position in May, and the stock price declined slightly. Our investment thesis is predicated on the value of NuFlare’s technology and its financial position. We believe the demand for electron single-beam mask writers will remain stable due to strengthening demand for semiconductor manufacturing equipment. NuFlare will also catch up with cutting-edge electron multi-beam machines from next year. In terms of financial position, the company has net cash of JPY 37 bn, equivalent to 48% of market cap. In addition, there is a possibility that Toshiba Group, which owns 65% of the shares, may sell the shares to improve its financial position if some leading semiconductor equipment makers offers a premium for this highly advanced company.

**Fanuc** was a detractor in the second quarter. The stock fell by -5.1% in the quarter mainly because the company released a weaker than expected profit forecast for FY2017 due to increasing R&D and manufacturing capacity which Fanuc has prioritized in pursuit of future growth. We believe the demand for computer numerical control (CNC) machines and robots will be strong, particularly in China and the U.S. We visited the company’s factory at the foot of Mt. Fuji in April to gain a deeper understanding of the proposition “robot made by robot”. We believe factory automation will be accelerated worldwide, and Fanuc should have a key competitive position as its CNC machine is the de facto standard.

**Astellas** was the third largest detractor in the quarter mainly because the market including sell-side analysts became pessimistic after Astellas reported that its biggest revenue generator, Xtandi, saw flat sales volume growth in the US. We believe that the drug’s slowdown is already priced into the valuation of 14.4x PE, the lowest among the Japanese major

APS Asset Management Pte Ltd

pharmas, while ROE is 16%, the highest among the same group. Astellas has a number of attractive pipelines including Roxadustat for the treatment of chronic kidney disease with potential peak sales of over \$1bn, which we believe is not reasonably reflected in the share price yet.

### Strategy & Continued Research

We expect some volatility in the Japanese market due to several upcoming political events with geopolitical risk but APS will remain focused on fundamentals and valuation instead of on macro events with no material link to fundamentals. We like this type of volatility as it presents opportunities for us to initiate or increase positions in companies that are mispriced but have significant upside potential in the longer horizon based on our rigorous research. In addition, the Japanese market is in a significant stage of structural transformation, and we believe that we can find many growth companies.

Source: APS

## PORTFOLIO ACTIVITY

### Recent Buys

**Nihon Trim** manufactures and sells home water purifiers based on electrolyzed reduced-water systems. With a 65% market share, it is the largest player in this segment. The company's home water purifiers have grown by 5Y CAGR of +9.4% until FY 2015 due to improving awareness of water's role in health. However, the media negatively portrayed hydrogen water last summer and market sentiment towards the water purifying sector dimmed. Nihon Trim's sales and stock price declined although the company's products have no known harmful effects. Our discussion with its CEO confirmed that sales have bottomed out and even if sales continued to fall -10% this year, the company's intrinsic value would still be 15% above its market value. It has JPY 9.4 bn of net cash equivalent to 30% of market cap and continues to earn recurring cash flow from cartridge replacements. In addition, it has other healthcare businesses such as a hospital in China, water for dialysis, umbilical cord blood managing services, and a bottled water business in Indonesia. Profits from these operations are still small, but there is a huge upside if some of these businesses succeed.

**JustSystems** is a software development company renowned for the Japanese word processor "Ichitaro". In 2009 Keyence, a leading Japanese factory automation company, acquired a 40% stake of JustSystems and changed the management as well as sales and development strategies. Since then, JustSystems has had a remarkable turnaround and is profitable. We recently met its CEO, Kyoutaro Sekinada, who was responsible for the turnaround. The meeting gave us confidence that JustSystems will continue growing and improving its operating margin via the "Keyence way" i.e. develop customer-driven products in a timely fashion and leverage the existing customer base by selling them further products. In addition, a revised policy for public schools taking effect in 2020 will require a tablet for every student. JustSystems currently has 80% of the educational software market comprising 20,000 public schools; the company already has a foot in the door and will be a significant beneficiary of this policy. Since no sell-side analyst covers it, we believe there is a significant gap between its market and intrinsic value. As our DCF model shows more than +90% upside, we decided to invest in this stock.

As we mentioned earlier, we also initiated a position in **NuFlare Technology** in May.

### Recent Sells

**Seiko Epson** is one of the largest manufacturers of inkjet printers. The company has recently entered into the copier market by leveraging its precision core technology. The market is expecting another success story along the lines of the big tank inkjet printer. However, we believe it is difficult to make profits from copiers in developed markets like Japan as price competition is intensifying. Therefore, we decided to take profit on this stock.

We exited our positions in **Toyota** and **Denso** as the challenges are mounting for large, traditional auto and parts manufacturers over the long term. Both competition and development costs are climbing but it will be difficult to pass the costs on to buyers. As electric vehicles and self-driving cars become part of the automobile landscape, the demand for car electronics is accelerating, and this has attracted many competitors into the auto supply chain including electronics, components, materials, systems integration, EMS, etc. Some of the new players came from slowing industries such as smart phones. At the same time, the spread of ride hailing services such as Uber can lead to decreasing car ownership and car sales volume. Declining volume will impact margins. Denso is attempting to grow via advanced assisted driver systems (ADAS) but this segment's contribution to profits is limited.

### STATISTICAL PROPERTIES & RISK ANALYSIS

| RETURNS         | AVE MTHLY | ANNUALIZED |
|-----------------|-----------|------------|
| Since Inception | 0.24%     | 2.96%      |
| Last 60 mths    | 0.92%     | 11.62%     |
| Last 36 mths    | 0.65%     | 8.11%      |
| Last 12 mths    | 1.75%     | 23.11%     |

| RISK            | AVE MTHLY | ANNUALIZED |
|-----------------|-----------|------------|
| Since Inception | 4.81%     | 16.68%     |
| Last 60 mths    | 3.89%     | 13.48%     |
| Last 36 mths    | 3.45%     | 11.96%     |
| Last 12 mths    | 3.48%     | 12.05%     |

| RELATIVE RATIOS   | INDEX |
|-------------------|-------|
| Information Ratio | 0.35  |
| Up Capture        | 94%   |
| Down Capture      | 98%   |

| PORTFOLIO ANALYTICS       | FUND    | INDEX   |
|---------------------------|---------|---------|
| Total Return              | 64.20%  | -6.26%  |
| Annualized Return         | 2.96%   | -0.38%  |
| Annualized Volatility     | 16.68%  | 16.18%  |
| Annualized Sharpe Ratio*  | 0.26    | 0.06    |
| Annualized Sortino Ratio* | 0.26    | -0.03   |
| Annualized Alpha          | 3.57%   | -       |
| Beta                      | 85.6%   | -       |
| Correlation               | 83%     | -       |
| Positive Months           | 111     | 109     |
| Negative Months           | 93      | 95      |
| Maximum Drawdown          | -48.08% | -56.58% |
| Best Month                | 12.87%  | 14.41%  |
| Worst Month               | -14.67% | -13.92% |

Index: Topix Index

Inception date: July 2000

Note: Fund performance is expressed in USD and is gross of management and performance fees.

All risk statistics are calculated from Inception to June 2017 unless otherwise specified.

\*Assuming Bank of Japan Result Unsecured Overnight Call Rate as the risk-free rate (with a floor of 0.00%)

FUND INFORMATION

Investment Manager

Company APS Asset Management Pte Ltd  
Lead Portfolio Manager Hiromitsu Kawakita

Fund Details

Domicile Dublin, Ireland  
Structure Open ended UCITS Unit Trust

Inception Date July 1, 2000  
Fund AUM USD 33.96 mn  
Fund Base Currency USD

NAV Price as at June 30<sup>th</sup>, 2017

Class A: USD 143.44

Class B: USD 140.25

\* There were no units in Class C as at June 30<sup>th</sup>, 2017.

|                              | Class A    | Class B  | Class C |
|------------------------------|------------|----------|---------|
| Liquidity                    | Daily      | Daily    | Daily   |
| Minimum Initial Subscription | USD100,000 | USD1,000 | €1,000  |
| Management Fee               | 0.75%      | 1.5%     | 1.5%    |
| Performance Fee              | 15%        | 0%       | 0%      |

Bloomberg Code

Class A: APSGJPG ID

Class B: APSJPAB ID

Dealing Deadline 5pm Daily (Irish Time), 1 Business Day  
Preceding Dealing day

Subscription Fee Up to 5%  
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Client Services Contact Information

New York (1) 646 693 8530  
Singapore (65) 6333-8600  
E-mail cs@aps.com.sg

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APS Asset Management Pte Ltd

3 Anson Road, #23-01 Springleaf Tower, Singapore 079909 Tel: (65) 6333 8600  
Fax: (65) 6333 8900 E-mail: cs@aps.com.sg Website: www.aps.com.sg