

# Apis Global Long/Short Fund

## OBJECTIVE

The Fund's investment objective is to provide investors with risk adjusted, absolute returns through diversified exposure to global equities over 3 to 5 years.

<b>APIR</b>	HFL0108AU	<b>FUND SIZE</b>	\$40.2m
<b>ARSN</b>	093 497 600	<b>EXIT PRICE</b>	\$2.3347
<b>INCEPTION DATE</b>	31 March 2001		

## Net performance (%)

	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 Years p.a.	Since inception p.a. <sup>2</sup>
<b>Fund<sup>1</sup></b>	<b>0.34</b>	<b>5.02</b>	<b>26.32</b>	<b>8.92</b>	<b>7.73</b>	<b>6.87</b>	<b>6.90</b>

<sup>1</sup>Shaded Fund performance prior to 1 October 2020 is not attributable to Apis Capital Advisors, but the previous investment manager. Performance of the Apis Global/Long Short Composite is below for reference.

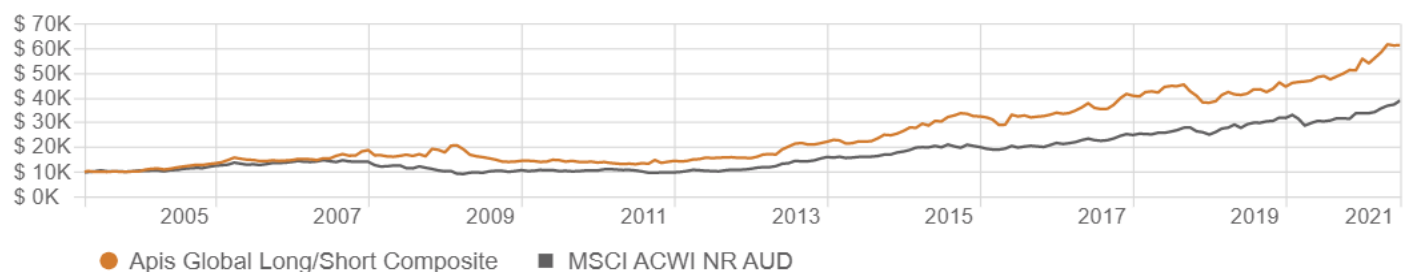
<b>Apis Global Long/Short Composite<sup>3</sup></b>	<b>0.34</b>	<b>5.02</b>	<b>25.68</b>	<b>11.07</b>	<b>13.57</b>	<b>15.58</b>	<b>11.11</b>
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### Apis Global Long/Short Composite 1 month rolling returns<sup>3</sup>

CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
<b>2021</b>	-3.25	3.90	4.19	5.44	-0.74	0.34							<b>9.98</b>
<b>2020</b>	3.31	0.82	0.50	0.73	2.98	0.96	-2.80	2.55	2.30	2.90	-0.23	9.15	<b>25.27</b>
<b>2019</b>	1.60	6.42	2.93	-2.19	-0.56	1.24	4.15	0.10	-2.51	3.07	5.84	-3.61	<b>17.11</b>
<b>2018</b>	-0.67	4.26	0.76	-1.09	5.36	0.87	-0.10	1.37	-5.93	-4.37	-6.67	-0.13	<b>-6.86</b>
<b>2017</b>	-1.31	0.81	3.06	3.55	4.73	-4.93	-1.32	0.32	4.48	7.13	4.44	-1.77	<b>20.17</b>
<b>2016</b>	-1.27	-2.55	-7.22	0.41	13.84	-2.04	1.18	-2.41	0.97	0.71	1.67	2.49	<b>4.58</b>
<b>2015</b>	5.29	-0.66	6.12	-2.56	6.49	-0.63	5.83	2.00	2.69	-0.70	-2.83	-0.26	<b>22.07</b>

## Investment growth of \$10,000 since inception<sup>3</sup>

Time Period: 16/04/2004 to 30/06/2021



<sup>1</sup>Past performance is not indicative of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distributions.

<sup>2</sup>This figure represents the annualised performance from the Fund's inception on 31 March 2001 and the Apis Global Long/Short Composite's inception on 16 April 2004.

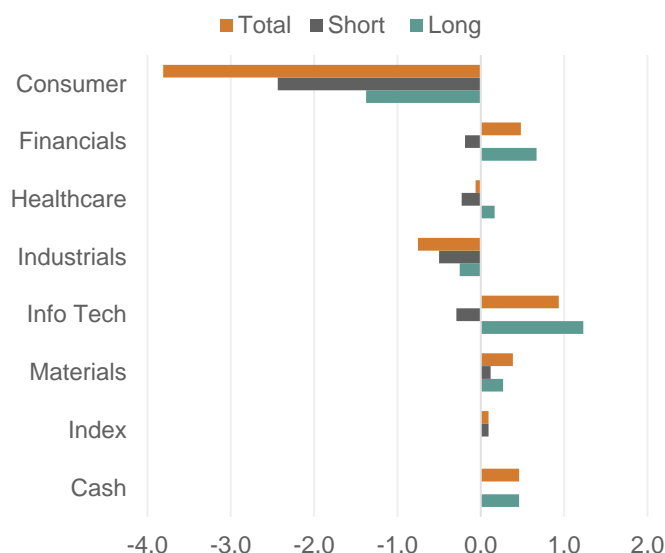
<sup>3</sup>For periods between 16 April 2004 to 30 September 2020, the Apis Global Long/Short Composite reflects the Apis Offshore Capital Ltd, ('Underlying Fund') USD track record converted to AUD terms. The Underlying Fund returns are stated net of management fees and an annual performance allocation. The Underlying Fund's inception date is 16 April 2004. Performance from 1 October 2020 to date reflects the actual net returns of the Apis Global Long/Short Fund. Source: Apis Capital Advisors and Morningstar Direct.

## CONTACT DETAILS

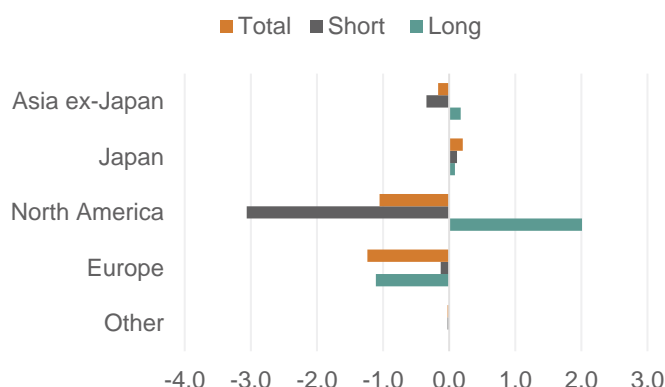
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**Sector exposure (%)<sup>1,2</sup>**

	Long	Short	Gross	Net
Consumer	12.73	-16.05	28.78	-3.31
Financials	7.77	-2.58	10.35	5.18
Healthcare	3.69	-4.28	7.97	-0.59
Industrials	35.46	-5.71	41.17	29.74
Info Tech	25.89	-6.87	32.76	19.02
Materials	10.48	-1.38	11.87	9.10
Other	0.00	-0.52	0.52	-0.52
<b>Total</b>	<b>96.01</b>	<b>-37.40</b>	<b>133.41</b>	<b>58.61</b>

**Monthly sector contribution (%)<sup>1</sup>**

**Regional exposure (%)<sup>1,3</sup>**

	Long	Short	Gross	Net
Asia ex Japan	26.14	-4.97	31.10	21.17
Japan	8.76	-4.65	13.41	4.11
North America	36.00	-21.16	57.16	14.84
Europe	25.11	-5.34	30.45	19.77
Other	0.00	-1.27	1.27	-1.27
<b>Total</b>	<b>96.01</b>	<b>-37.40</b>	<b>133.41</b>	<b>58.61</b>

**Monthly regional contribution (%)<sup>1,3</sup>**

**Performance Review**

The Apis Global Long/Short Fund returned 2.60% (net) for the quarter.

The second quarter of 2021 was characterised by several feuds playing out in the market. The retail embrace of SPACs and meme stocks continued in earnest. While the Fund is somewhat impacted on the short side, the Fund maintains a handful of small positions. The long side was characterised by strong performances from commodity-related names offset by a pullback from other companies in the Fund's portfolio that performed strongly last year. In general, the market is working out whether to favour growth or value stocks. However, the investment manager's framework allows for both growth and value; moreover, the investment manager often find both elements in the same stock.

Regionally, Europe and Asia both contributed more than 2.0% gross while North America was slightly negative due to the short side. By sector, cyclicals added nearly 5.0% and financials contributed nearly 2.0%. Consumer was a detractor (again, driven by the short side), down about 3.1% during the quarter.

Notable winners on the long side included Penn Virginia, a shale oil name the Fund has owned during past cycles. It is a conservative, hedged operator, which participated solidly in the oil rally, contributing about 1.7%. Also contributing more than 1.0% were flatexDEGIRO (an online broker in Europe), Cornerstone Building (building supplies in the US) and HEG Ltd (Indian manufacturer of graphite electrodes). Long detractors were all below 1.0% each and included companies such as Intelligent Systems which the investment manager expects to have a strong catalyst in the fourth quarter of the year as well as Darling Ingredients. On the short side of the portfolio, the Fund had one retail-driven detractor, costing the Fund about 2.7%, along with a handful of others detracting between 0.3% and 0.6%. These continue to be some of the most compelling shorts the Fund has ever seen, but the investment manager acknowledges the need to manage risk and have intentionally kept them small, generally between 0.2% to 1.0% in size.

<sup>1</sup>Data is stated in USD terms and reflects the Underlying Fund.

<sup>2</sup>'Other' includes exposures from Index and Cash.

<sup>3</sup>'Other' includes countries outside the regions stated above.

## Performance Review (continued)

Contributors on the short side was Chugoku Electric Power, which managed to defy the market as Japan continues to turn away from coal, falling 26% in the quarter. While net exposure has remained relatively flat at just under 60%, the Fund's gross exposure has risen from 118% to 133% over the quarter, which is more typical of the Fund's historical average and driven mostly by increased exposure to the industrials sector.

## Investment Highlights

*Chroma ATE, Inc. (Taiwan – \$3 billion market cap)*

There are a lot of markets that grow fast but do so without any sustainable profits. The common thread is generally too much competition. Electric vehicles are a perfect case in point. Electric vehicle manufacturers and their suppliers have been largely loss making as they are in a death match to establish market share. Investors will point to Amazon and its years of losses combined with growth to justify the strategy. While the investment manager is skeptical that the auto industry is analogous to Amazon, the investment manager has been able to find a way to participate in the growth of the electric vehicle industry while also generating cash flow and profits at a reasonable valuation.

Chroma ATE is a provider of highly technical testing equipment for a variety of electronics with over a third of its sales coming directly from electric vehicles and over half indirectly. It operates in an oligopoly with companies like Teradyne, where their market share is difficult to pin down but is reportedly as high as 90% within Taiwan. The company produces small batches of equipment for a variety of components in the vehicle, ranging from the battery to the on-board charger and DC converter. It has a long history of producing this type of equipment going back to the 1980's and financial performance has ebbed & flowed with product cycles such as flat screen televisions and mobile phones. Recently, however, the specifications have ramped up as complexity across all electronics has increased exponentially. In addition to electric vehicles, the company has developed niche testing equipment for power semiconductors used in 5G base stations among other applications. Testing these types of semiconductors requires a different "system level" approach now that extreme levels of power are being used. As a result, the time to test is much longer, necessitating more equipment to maintain testing throughput. Chroma has seen this in year-to-date results with nearly 20% growth. With a mid-to-high teens price-to-earnings multiple, Chroma trades at a discount to its peers despite an excellent outlook and market position. The investment manager believes the company has the potential to be a solid compounder with tremendous upside for years to come.

*HSD Engine (Korea – \$350 million market cap)*

Shipping is a notoriously rotten industry, few things are more commoditised and cyclical. This also presents opportunity, with some of the most epic swings a cyclical investor can find. Ship builders like Samsung Heavy in Korea have historically seen 10x gains followed by 90% plunges or, more recently, Evergreen Marine in Taiwan which recently rose 2,200% on the back of surging shipping rates. The reason for these moves is that capacity takes a long time to add, it stays in place for a long time once it is built, and customers do not really care about the cost of shipping when the products they need are in short supply.

The current environment is a perfect storm: On the supply side, ship orders are at some of the lowest levels historically seen as most operators have been struggling ever since the end of the financial crisis. The ships in operation today are aged and, until just recently, many were being scrapped as they were no longer economic to operate. On the demand side, large segments of the shipping industry that had been idling for the past decade suddenly saw an explosion of demand, particularly in the bulk carrier segment for raw materials like copper and the container segment used to transport goods.

This cycle has an unusual wrinkle as there is an environmental component – pending decarbonisation regulations – that will add significant uncertainty to what fuels will be permissible over the next decade and beyond. Since ships are typically purchased based on 20+ year lives, owners and operators care a great deal about this issue.

One key beneficiary of both this cycle and the fuel uncertainty is HSD Engine who holds 40% market share in Korea for ship engines and is one of just two producers of dual fuel engines. These engines can burn both marine fuel (essentially diesel) and LNG (liquid natural gas) which has lower carbon emissions. As ship owners place new orders, they are beginning to take this dual fuel option as they anticipate needing this to meet future regulations. In the first quarter, 37% of orders were for dual fuel engines, up from just 4% in 2020. Overall orders are up over 60% and the investment manager believes this can continue for an extended period as it could take many years to balance the shipping market. With the added tailwind of decarbonisation, HSD only trades at a single digit price-to-earnings multiple. The investment manager believes this cycle has the ingredients be very long and very strong. HSD offers a great way to participate with a lot of upside.

## Market outlook and positioning

Markets are stressing over a large uptick in US inflation. The implications for valuations are material as high inflation will meaningfully impact price-to-earnings multiples. Speculative stocks are particularly vulnerable, i.e., periods reminiscent of 1972 or 2000. With that said, debate rages as to how sustainable the recent inflation pick up will be.

Labour shortages are exacerbated by epic unemployment benefits, closed schools/lack of childcare leading to all manner of product and service shortages.

## Market outlook and positioning (continued)

Consider that at least half (or more) of the May core inflation figure is attributable to record spikes in rental car rates, used car prices, travel and home costs. For the time being, however, the investment manager is watching the data very closely and, as always, considering the Fund's overall positioning within context. The Fund's gross exposure continues to be towards the lower-half of its historical range while the Fund's net is at the mid-to-upper end, and the investment manager will continue to focus on unique, idiosyncratic ideas whose fortunes should not pivot on short-term macro considerations.

### *Shorting 'Meme' Stocks*

Given the unprecedented speculation it is worth spending a moment on the topic of shorting. Shorting has never been easy, but the last 18 months (for the investment manager at least) have never been more difficult. Managing the Fund's strategy for the first 16 years, the investment manager essentially broke even on shorting, with 7 positive and 9 negative years. From the standpoint of alpha, outcomes appear much better as the investment manager's shorts have relatively underperformed the market by a wide margin. In some years such as 2008 or 2011, shorting has provided significant returns, mitigating, or completely erasing losses when markets were poor. From the investment manager's global purview, no market looks as attractive today for shorting as the US.

There are many traditional reasons why shorting stocks is difficult. Markets tend to increase over time and managers/bankers are incented to push stocks higher. There are also technical challenges such as securing borrow, borrowing costs and regulatory hurdles that raise the hurdle in achieving a profitable outcome. Now, in addition to these traditional challenges, there are some new reasons shorting has become more difficult. 'Meme' retail investors have banded together and are a new force to reckon with. Their behavior is completely irrational as they set out to destroy 'evil' short sellers.

Companies use this circus to issue stock (e.g., AMC went from 100 million to 500 million shares outstanding in last 18 months alone) and executives, despite running their companies fundamentally into the ground, take advantage of the situation and pay themselves tens-of-millions of dollars in 'compensation'. Option market makers (Wall Street) also get rich selling volatility.

One difficult aspect to rationalise is why short selling is targeted. Investors can believe a business is undervalued and worth more, so they buy it. Or they can believe a business is overvalued and worth less, so they sell it. Neither view is inherently good or bad. That money should flow toward good businesses and away from bad ones is why capitalism works. Short sellers provide a useful public good when they expose bad management or help to root out corruption. They are brave to take on the media and political forces that are closely aligned with their corporate benefactors. Ironically, meme investors prop up corruption and enrich bad managements while sending billions in premia to options desks – not exactly “sticking it to the man.”

How does the investment manager deal with this situation? Fundamentals will reassert themselves, but the investment manager cannot predict when. The investment manager has analysed and, in some cases, shorted several businesses they believe are likely to fail. Initiating as small positions (generally 0.20% to 0.50% in size) of which the investment manager can add to when the tide turns.

## Material matters

During the month, there were no material changes to the Fund in terms of the service providers, risk profile, investment strategy or changes to individuals in the investment team who play a key role in the investment decisions of the Fund.

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