

# 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>MANAGER APPOINTED</b>	1 October 2020
<b>ARSN</b>	093 497 600	<b>FUND SIZE</b>	\$53.6m
<b>INCEPTION DATE</b>	31 March 2001	<b>EXIT PRICE</b>	\$2.6868

## Net performance (%)

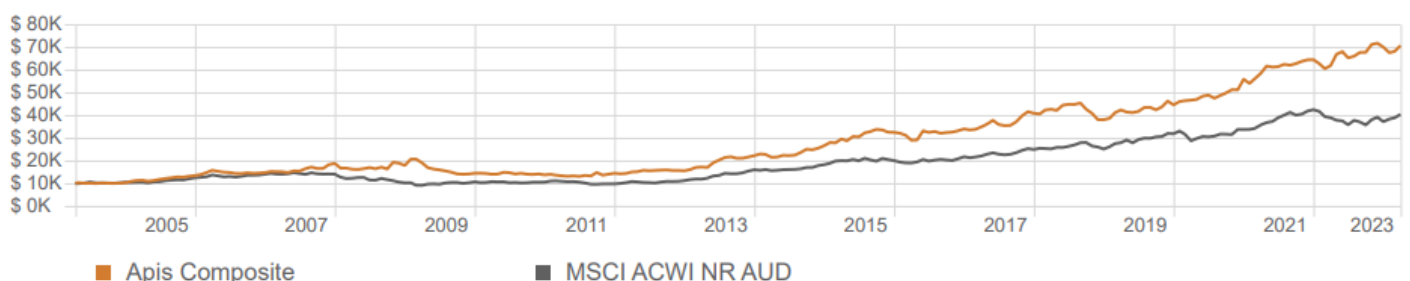
	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 Years p.a.	10 Years p.a.	Since inception p.a.
<b>Fund<sup>1</sup></b>	<b>3.76</b>	<b>0.99</b>	<b>14.22</b>	<b>15.40</b>	<b>8.57</b>	<b>7.89</b>	<b>7.87</b>	<b>7.02</b>
<sup>1</sup> Fund performance prior to 1 October 2020 is not attributable to the current investment manager, but the previous investment manager. The Apis composite is presented below to provide a longer-term view of the Fund's current investment strategy.								
<b>Apis Composite<sup>2</sup></b>	--	--	--	<b>14.84</b>	<b>10.64</b>	<b>13.56</b>	<b>15.14</b>	<b>10.86</b>

### Apis Composite 1 month rolling returns<sup>3</sup>

CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
<b>2023</b>	-3.51	0.88	3.76										<b>0.99</b>
<b>2022</b>	-2.77	-3.46	2.27	8.00	1.78	-4.05	1.11	2.55	0.02	5.17	0.77	-2.42	<b>8.58</b>
<b>2021</b>	-3.25	3.90	4.19	5.44	-0.74	0.34	1.62	-0.58	1.09	1.59	1.07	0.07	<b>15.42</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>

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

Time Period: 16/04/2004 to 31/03/2023



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.

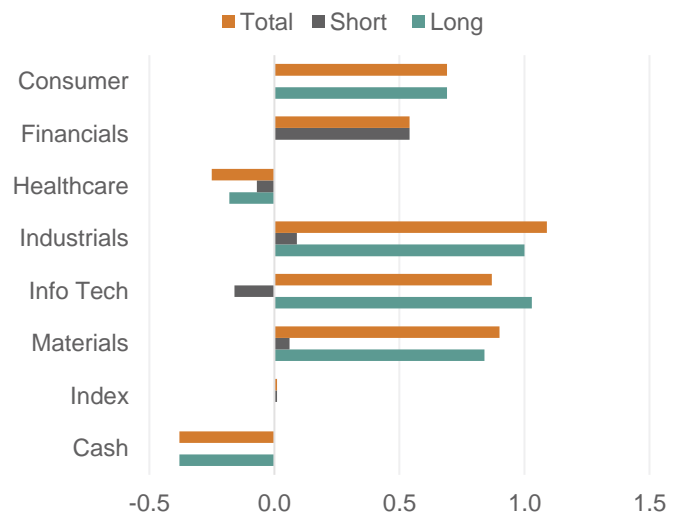
<sup>2</sup>The inception date of the Apis Composite is 16 April 2004. Performance periods from 16 April 2004 to 30 September 2020 for the Apis Composite represent the Apis Offshore Capital Ltd USD track record converted to AUD terms, net of management fees and an annual performance allocation. Performance periods for the Apis Composite from 1 October 2020 to month-to-date reflect the net returns of the Apis Global Long/Short Fund. Source: Apis Capital Advisors, State Street Australia Ltd and Morningstar Direct.

## CONTACT DETAILS

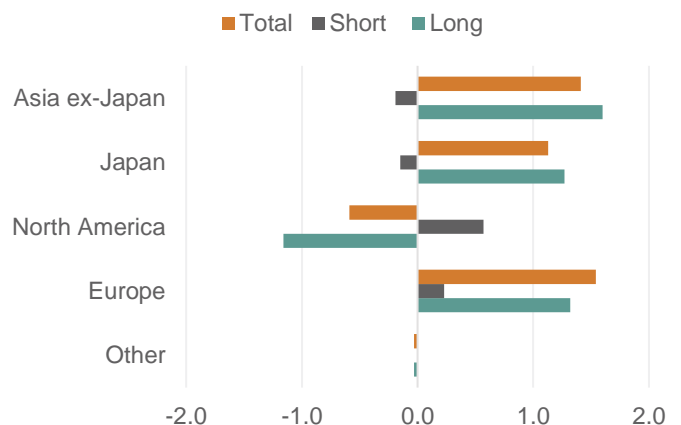
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**Sector exposure (%)<sup>1,2</sup>**

	Long	Short	Gross	Net
Consumer	8.27	-11.20	19.47	-2.93
Financials	0.00	-5.16	5.16	-5.16
Healthcare	1.53	-5.80	7.33	-4.27
Industrials	41.98	-7.18	49.15	34.80
Info Tech	14.25	-4.13	18.38	10.11
Materials	21.99	-1.21	23.20	20.78
Other	0.00	-0.22	0.22	-0.22
<b>Total</b>	<b>88.01</b>	<b>-34.89</b>	<b>122.91</b>	<b>53.12</b>

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

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

	Long	Short	Gross	Net
Asia ex-Japan	17.89	-5.12	23.01	12.78
Japan	16.60	-6.12	22.72	10.47
North America	16.69	-17.29	33.98	-0.60
Europe	34.97	-6.37	41.34	28.61
Other	1.86	0.00	1.86	1.86
<b>Total</b>	<b>88.01</b>	<b>-34.89</b>	<b>122.91</b>	<b>53.12</b>

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


<sup>1</sup>Data is stated in USD terms and reflects the underlying fund. Totals may not equal due to rounding.

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

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

All currency references in the commentary below are in US dollar terms unless stated otherwise.

**Performance Review**

The Apis Global Long/Short Fund (the 'Fund') returned 0.99% (net) for the quarter (in Australian dollar terms).

During the quarter, the market performed strongly, largely driven by only three stocks – Apple, Nvidia and Microsoft – accounting for more than half the S&P 500's gains. Still, global benchmarks had a good quarter however the Fund lagged, notably in February, which was due to individual stock performance as a result of Q4 earnings reports and/or forward guidance.

Another contributing factor was due to being caught on the wrong side of some technical rotations in the market. For one, the best stocks of 2022 were the worst during Q1 of 2023. Last year's top 3 decile performers were all down while the worst-performing, bottom-decile stocks soared. The investment manager had a good year last year however as they did not rotate away from these stocks on January 1st, they were negatively impacted. This also extended to the investment manager's shorts from last year, where many of the bottom decile performers that plummeted last year convincingly outperformed.

Outside of the "January Effect," other coincident factors did not go the investment manager's way. Small versus large, growth versus value, and a few other themes also caught the investment manager offside.

## Performance Review (continued)

Loss-making concept stocks were the place to be during Q1. Other top performers such as “non-profitable tech,” “retail favourites,” and “most short” were up strongly, while the worst areas of the market were “defence,” “commodity sensitive” or “Inflation Reduction Act (“IRA”) Beneficiaries.” Fundamentally, the investment manager is comfortable maintaining a portfolio skewed against speculative loss-makers and toward long-term themes they favour. The IRA-related stocks are one such area the investment manager continues to like and highlight in greater detail below.

Regionally, Europe did well and remains the investment manager’s largest net allocation, while Japan was weak. A couple of stocks fell, such as Osaka Titanium (the Fund’s top performer last year) which detracted 1.3% from returns. Another stock the investment manager continues to like long-term, M-up Holdings of Japan, declined -0.5% as in-line earnings disappointed. M-up is the leading digital ticketing player in a market that is just beginning to digitise. As the sale/exchange of event tickets modernizes and COVID restrictions subside, the investment manager thinks M-up has the potential to grow at double digits for years to come.

On the short side, the challenges hit mostly in January where the “January Effect” and resurgence in “meme” investing impacted returns. One name, C3.ai (ticker: AI), caught fire. The investment manager has been happily short for over a year but did not anticipate the “AI” C3.ai would light up this otherwise no-growth company. Another troublemaker was Carvana, a long-held short that tripled through early February. While these types of short positions are sized very small (i.e., 0.20% bps), when they triple or quadruple in a few weeks they matter.

## Portfolio outlook and positioning

Inverted yield curves, bank stress/credit tightening, transport data, PMI surveys, etc. seem persistent and pervasive enough to suggest a recession. Add to that the Ukraine/Russia war and other geopolitical considerations, and it is easy to be pessimistic. On the other hand, recent stock market behaviour seems to contradict this thinking.

Another “infallible” indicator suggests that after a down year, when Q1 is up, the rest of the year is always up, often quite a bit.

While price history suggests optimism, the investment manager is open to a variety of outcomes. When just a few stocks are “the Index” does it have the same meaning as in the past?

The investment manager remained too cautious in 2009 and it humbled them. Lesson then as now is that each cycle is unique, and this cycle, which seems perverted by many factors – unprecedented government spending, war, COVID, novel central bank programs, etc. – makes the current environment especially difficult to understand. The investment manager remains in the middle regarding gross and net exposures, with a tilt in favour of being long areas of government support (e.g., IRA, Infrastructure, Chips Act, defense spending, etc.) and short areas that will suffer should cautious lending and lower risk-taking persist.

## Investment Highlights

### Opportunities Solar

As Apis enters their 20th year, the investment manager highlights an opportunity set that has consistently generated ideas and strong returns for them over the decades. The renewables sector, particularly the solar supply chain, fitting neatly within the investment manager’s strategy of leveraging information gained in one geography to find the best opportunities worldwide regardless of borders.

A recurring theme in these investments is a mismatch between supply and demand, often sparked by some poorly executed but well-intentioned government subsidy or intervention. Shortly after the launch of Apis in 2004, they identified an acute shortage of polysilicon, the key feedstock for making solar wafers. This was prompted by the introduction of generous government subsidies in Europe for solar power. Companies like MEMC in the US and Tokuyama in Japan benefitted from a 20-fold increase in polysilicon prices. That increase inevitably led to oversupply, and the investment manager took the other side of those trades in the latter half of the decade. The great thing about solar is that the industry has a wide variety of suppliers each with its own supply/demand dynamic and unique geographic exposure. In 2011, the investment manager noticed that a tire cord manufacturer in Belgium was making absurdly high profits selling its wire to Chinese solar wafer manufacturers who used it as sawing wire to cut wafers out of the polysilicon cylinders (ingots). The investment manager then found that the Chinese were on the cusp of building enough capacity to flood the market. While the Belgium company began to price this in, there was another supplier in Japan named Tokyo Rope that turned out to be an excellent short on the same theme. While Tokyo Rope was a short in Japan, a much bigger chance to go long came in 2012/2013 when the Japanese government, in response to the Fukushima disaster, implemented a ridiculously generous subsidy for solar. The numbers effectively guaranteed 20%+ IRRs on projects which were nearly bond-like given that costs are completely fixed (financing & capital are the main costs for solar projects), and the revenues were also effectively fixed (generally a price set by the government). This was, in other words, a Japanese government bond yielding 20%+ in an environment where 1% yields were the norm. The investment manager bought a handful of solar installation and engineering companies like West Holdings in Japan, which benefitted spectacularly. Watching the pattern of boom-bust cycles tied to European subsidies helped inform the investment manager how Japan was likely to play out. The boom-bust pattern continued with similar overbuilding of solar farms in China towards the end of the 2010s, and the investment manager identified shorts in Hong Kong such as GCL and Panda Green. During this time another type of solar company came to the public markets in the form of solar farms. These companies had largely moved past the subsidy stage and were beginning to sign fixed-price offtake agreements with major corporations and utilities. Companies like Encavis in Germany and West Holdings in Japan were moving into this space and delivering very steady utility-like cash flows but with much faster revenue growth.

## Investment highlights (continued)

Given their priority for selling their power into the grid at fixed rates, the revenues were completely unimpacted by the economic crash in early 2020. The investment manager used this opportunity to buy several of these companies and benefitted as their shares recovered throughout the year.

The investment manager believes another excellent opportunity has presented itself today as governments have pushed through a jaw-dropping symphony of subsidies, tariffs, and embargoes to support the development of renewables in Europe and North America. This latest effort is in response to the energy crisis in Europe, climate change concerns, protectionism, supply chain security, and human rights violations. While Europe had a wave of subsidies come and go 10+ years ago and Japan saw something similar after Fukushima (not to mention analogous examples in many other countries), the world has never witnessed this degree of concurrent stimulus measures targeted at renewables & electrification.

In the US, a few different laws are currently having an impact in these areas. The first proposal relates to the dumping of Chinese-made solar panels at below-market prices. As with many other products in a variety of industries, the Chinese are subsidizing their local manufacturing capacity for solar panels and, in turn, dumping these low-cost panels into foreign markets, including the US. In response, the US suggested significant anti-dumping duties on these panels, payable retroactively – in some cases as much as 100%+. Today, panels in China are nearly half the price (low \$USD20 cents per watt versus nearly 40 cents in the US for comparable products).

Meanwhile, clever Chinese manufacturers shifted their final assembly to Southeast Asia to sidestep these tariffs. The US replied with anti-circumvention measures, naturally. Then, in June 2022 the Biden administration put a 2-year suspension on the anti-circumvention tariffs realising that, with China's near monopoly on global production, this tax would cause a collapse in installations in the US and an inevitable failure to hit renewables targets.

As of this writing, Congress (R's AND D's!) are trying to overturn Biden's suspension. Regardless of whether you track all that, the point is this is considered to be quite the mess, and the underlying thrust is that the US no longer wants to import subsidized products in a strategically important market like renewables where subsidies are funding the purchase.

The next piece of legislation is the "The Uyghur Forced Labour Prevention Act," passed in December of 2021, which essentially bans imports of solar modules produced through forced labour in China. Solar panels (and specifically the polysilicon used to make them) are just one of the many items affected, including many agricultural items such as tomatoes and cotton (previously banned by the Trump administration). No one knows exactly how big an impact this will ultimately have, but already nearly \$1 billion of solar panel shipments have been stuck at Customs & Border Protection as agents seek to identify the item's provenance. It is estimated that over 40% of Chinese production (basically all the global production today) comes from the affected region. This Act has significantly slowed the installation of solar in the US as the industry looks to find an alternative supply. Not surprisingly, prices have also increased in the US, as noted earlier.

The last relevant law in the US is the 2022 IRA which is estimated by the administration to provide around \$370 billion of subsidies (although the reality is that the subsidies are uncapped, so no one really knows). Goldman Sachs estimates might run up to over \$1 trillion. The subsidies are described in insufficient detail in the 700+ page document, so the Treasury Department has been interpreting them and recently provided guidance for the electric vehicle portion. The solar portion is expected in about a month. At the heart of this is an effort to drive onshore manufacturing. The investment manager alluded to this in the previous quarter's commentary when discussing a Korean company called Hanwha Solutions. The credits are very specific and provide cash for domestically manufactured components. For example, every kilogram of polysilicon manufactured domestically receives \$3, every watt of module gets \$0.08 cents, etc. These subsidies are estimated to sum to nearly \$0.17 cents per watt which, for perspective, is a lot when you consider the Chinese price is just over \$0.20 cents per watt. The industry awaits detailed and specific guidance later this month on what constitutes "domestic manufacturing."

Looking outside the US, Europe is also very interested in building (back) its domestic renewables manufacturing and sees the US's IRA as a competitive threat for capital. The issues in Europe are even more pressing as they seek to gain both energy independence and eliminate emissions of CO2. The EU already has the "Green Deal," which offers 250 billion Euros to decarbonize. Preliminary indications are that the EU will also offer incentives with domestic content targets. They have proposed the "Temporary Crisis and Transition State aid Framework" or TCTF, which will offer up to 100% or more of the capital expenditure and operating expenses to build domestic manufacturing capacity. In addition, they are also proposing a "Net Zero Industry Act," which would allow for premium pricing to cover the excess cost that domestically produced solar panels will incur. While these laws still need to be ratified, they signal the direction we're headed in.

The rest of the world will not sit idly while the US and US attempt to absorb all the world's incremental solar manufacturing capacity. Few countries possess anything close to fossil fuel independence, most have committed to reducing CO2, and all are worried about energy security. The investment manager expects to hear about more subsidies from countries around the world. For example, Canada announced a \$100 billion program this March in response to the IRA, which includes its own 30% tax credit. The world is awash in subsidies for renewable energy, unlike any period witnessed before. You might ask, "how will the world pay for all this?" If history is any guide, it will be eagerly at first and then with reticence. That's a discussion for another day. Below the fund features two long positions they think are well-positioned to benefit from in the meantime.

## **Investment highlights (continued)**

### **Hanwha Solutions (Korea – \$8.5 billion market cap)**

Hanwha Solutions is a Korean company that happened to buy a bankrupt German solar company named Q.Cells in 2012. The investment manager knew Q.Cells as it was once an early investment of theirs around 2006. Like the rest of the once-burgeoning German solar market, Q.Cells ultimately failed as it could not compete with cheap Chinese imports. Hanwha managed to turn the Q.Cells brand into a top solar provider in the US. They built one of the few domestic manufacturing locations in Georgia, supplying 20-30% of the US rooftop market. This position allowed the company to react quickly to the IRA with an announcement to expand capacity. This year the company should generate over half its income from solar which should rise to 80%+ by 2024. They are expanding from 1.7 gigawatts to 8.4 gigawatts of capacity which is expected to account for roughly 20% of US demand by 2025 and drive roughly two-thirds of total group profits. The cost of this expansion is \$2.5 billion, and the subsidies that Hanwha expects to receive total more than \$6 billion. The net value of these subsidies represented over half the company's market capitalization when the expansion was announced late last year. The investment manager is excited about Hanwha as it represents one of the few ways to invest in the US solar build-out. The announcement of their expansion was well received by The White House and got a special press acknowledgment as it was the largest solar investment in the country to date. Currently, the stock is on a high single-digit price-to-earnings ratio, which compares favourably to peers like First Solar, which trades at 20-30 times. The investment manager believes the stock could double and it would still be reasonably priced. In the investment manager's experience, there is considerable scarcity value here as well because so few companies are primed to benefit, as they've discussed.

### **SMA Solar Technology (Germany – \$3.7 billion market cap)**

Lastly, the investment manager has a position in SMA Solar Technology, a European manufacturer of inverters. Solar panels produce direct current (DC), which is converted with inverters to alternating current (AC) to be used by consumers. As with so many companies in this supply chain, Chinese competition also harmed SMA. Despite struggling financially against this competition, they continue to be regarded as a top-quality producer in the utility market and a strong supplier in the European market generally. After fading for a decade, recent results have reflected the booming demand in Europe as the backlog for their inverters has doubled in just a few quarters. SMA controls the largest manufacturing base in Europe with nearly 20 gigawatts of capacity (equal to half of the historical European solar installations), and they are doubling this with a new plant in Germany. They stand to be a primary beneficiary of content localization in the inverter market. Moreover, they are a top three supplier for utility grade inverters in the US, which is set to receive its own series of subsidies. It is one thing for a homeowner to buy a Chinese-made inverter but for utilities, the risks have risen considerably given supply chain security and the regulated nature of utilities. The company recently reported a significant upward revision to its 2023 financial targets, and investment manager thinks this is only the beginning of many fruitful years. In the company's prime, they reached nearly 30% margins. The investment manager believes if they can do half that, the share price could double.

Taking a step back, it is important to consider the big picture. The global energy mix has hardly budged despite a decade of dramatic growth and expenditure on renewables. Historically, when new energy sources arrive, they take 20 to 40 years to establish themselves. Coal, natural gas, and oil all underwent decades of massive investment. The initial transition years are particularly accelerated. Given the incredibly strong tailwinds underway today – driven by decarbonization and energy independence – the investment manager sees the adoption of renewables growing just as fast as in past energy transitions. This should serve Apis well as it will continue to be a global phenomenon, with opportunities up and down the supply chain worldwide. Moreover, as highlighted with the investment manager's examples, the best opportunities may not necessarily be found in the most obvious place.

**Material matters**

There have been no material changes to the Fund in terms of key service providers, the risk profile, investment strategy or changes to individuals in the investment team who play a key role in the investment decisions of the Fund.

The Fund is classified as a hedge fund in accordance with the Australian Securities and Investments Commission, Regulatory Guide 240 'Hedge funds: Improving disclosure'. This classification is based on the fact that the Fund currently exhibits two or more characteristics of a hedge fund, being:

- complexity of investment strategy or structure;
- use of leverage;
- use of derivatives;
- use of short selling;
- charges a performance fee.

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