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.

APIR	HFL0108AU	**MANAGER APPOINTED**	1 October 2020
ARSN	093 497 600	**FUND SIZE**	$60.8m
INCEPTION DATE	31 March 2001	**EXIT PRICE**	$2.7641

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.
Fund[1]	**-0.25**	**2.88**	**11.42**	**14.36**	**8.88**	**8.03**	**7.77**	**7.07**
Apis Composite[2]	--	--	--	**14.16**	**10.16**	**12.19**	**13.61**	**10.87**

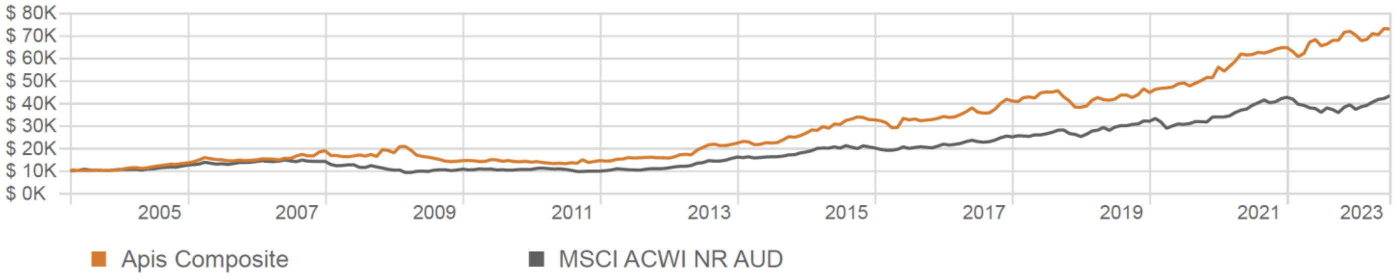
[1]Fund performance prior to 1 October 2020 is not attributable to the current investment manager, but the previous investment manager. The Apis composite is presented below to provide a longer-term view of the Fund's current investment strategy.

Apis Composite 1 month rolling returns[3]

CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2023	-3.51	0.88	3.76	-0.71	3.88	-0.25							**3.90**
2022	-2.77	-3.46	2.27	8.00	1.78	-4.05	1.11	2.55	0.02	5.17	0.77	-2.42	**8.58**
2021	-3.25	3.90	4.19	5.44	-0.74	0.34	1.62	-0.58	1.09	1.59	1.07	0.07	**15.42**
2020	3.31	0.82	0.50	0.73	2.98	0.96	-2.80	2.55	2.30	2.90	-0.23	9.15	**25.27**
2019	1.60	6.42	2.93	-2.19	-0.56	1.24	4.15	0.10	-2.51	3.07	5.84	-3.61	**17.11**
2018	-0.67	4.26	0.76	-1.09	5.36	0.87	-0.10	1.37	-5.93	-4.37	-6.67	-0.13	**-6.86**
2017	-1.31	0.81	3.06	3.55	4.73	-4.93	-1.32	0.32	4.48	7.13	4.44	-1.77	**20.17**

Investment growth of $10,000 since inception[3]

Time Period: 16/04/2004 to 30/06/2023



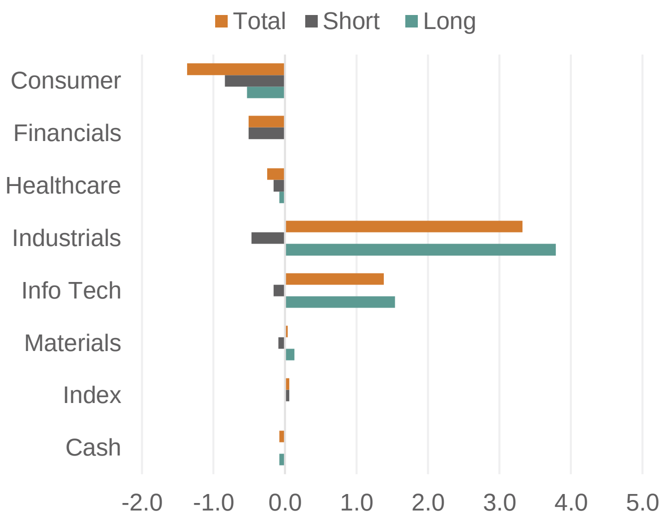
Past performance is not indicative of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distributions.

[2]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.

Sector exposure (%)[1,2]

	Long	Short	Gross	Net
Consumer	9.31	-8.48	17.79	0.82
Financials	0.00	-6.47	6.47	-6.47
Healthcare	2.48	-4.17	6.65	-1.69
Industrials	35.28	-9.01	44.29	26.27
Info Tech	21.75	-1.91	23.65	19.84
Materials	11.65	-1.64	13.29	10.01
Other	0.00	-0.23	0.23	-0.23
Total	**80.46**	**-31.90**	**112.37**	**48.56**

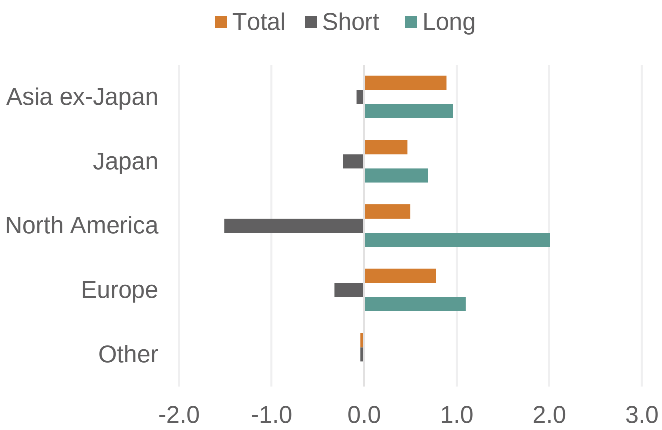
Monthly sector contribution (%)[1]



Regional exposure (%)[1,3]

	Long	Short	Gross	Net
Asia ex-Japan	19.39	-5.99	25.38	13.39
Japan	12.77	-3.60	16.38	9.17
North America	16.39	-15.95	32.35	0.44
Europe	30.12	-5.91	36.03	24.21
Other	1.80	-0.44	2.24	1.35
Total	**80.46**	**-31.90**	**112.37**	**48.56**

Monthly regional contribution (%)[1,3]



[1]Data is stated in USD terms and reflects the underlying fund. Totals may not equal due to rounding.
[2]'Other' includes exposures from Index and Cash.
[3]'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 2.88% (net) for the quarter (in Australian dollar terms).

The Fund's second quarter returns lagged relevant benchmarks as big tech drove market averages higher. Regionally, Asia ex-Japan stands out positively, while Japan disappointed. Across sectors, technology and industrials shined while materials fell. Consistent with this, the Fund's top longs were technology companies Alchip (Taiwan) and HPSP (Korea), while the Fund's biggest loser was a materials company, Osaka Titanium (Japan).

The unique conditions from Q1 extended into Q2, where a small number of stocks with a subset of characteristics (e.g. growth, large size and high beta) significantly outperformed.

Despite being momentarily misaligned with the current trends, the investment manager's bias towards small/ value/ quality remains unchanged and they know the pendulum will eventually swing more favourably their way. So long as the investment manager remains consistent, style or factor alignments will self-correct over time.

Performance review (continued)

On the macro side, the investment manager has been surprised by the weakness in China which they thought would experience a strong rebound upon the COVID-19 "re-opening." The rebound has been anemic at best. Lockdowns combined with political brinksmanship are causing lasting damage. One of the Fund's holding in Taiwan had a growing franchise restaurant business in China. Half of the franchises went out of business due to lockdowns – it's hard to rebound when half of your business is gone (although the stock has been strong this year). Additionally, many larger companies saw their factories shut down sporadically and often for extended periods due to the government's harsh COVID-19 policies. Years of on-off top-down business disruptions will weigh on future investment plans. Beyond governmental dictates, political pressures from Washington act to further deter foreign direct investment. Outside of some small shorts, the Fund has no direct exposure to China, but the Fund does have exposure to areas of commodities or materials (i.e., mining/energy) that the investment manager thought would benefit from a return to growth. In recognition of China's disappointing recovery, the investment manager has reduced the Fund's basic materials exposure by about half, primarily in the energy-related stocks.

A second macro surprise was the return of quantitative easing and a resurgence in risk taking. Between bailing out depositors at "systemically important" banks and running the Treasury General Account down to near zero (adding liquidity to the economy), conditions that were tightening suddenly reversed. This renewed risk appetite ignited another rally in a number of shorts the investment manager has discussed in the past. The investment manager has now witnessed this pattern numerous times in 2021, 2022, and again this year in January and June. While it is impossible to time these shorts perfectly, an opportunity presents itself yet again in all manner of speculations, including space travel, quantum computing, flying electric planes, etc. The investment manager's expectation was that after taking severe losses in 2022, speculators would have moved on, however, that has not been the case. The danger of getting squeezed in these names is as high as ever and the investment manager remain vigilant about risk management through position sizing.

From a stock-specific viewpoint, Osaka Titanium detracted about 1% this quarter. The investment manager sees this as a period of consolidation, as the stock was up nearly 400% in 2022. Fundamentally, the investment manager hoped they would aggressively raise prices (20%+) while actual prices increased 10-15%. Still, even backing off the investment manager's initial exuberance, they expect sales to surpass street estimates by more than 20% and profits to be more than double estimates. As previously discussed, the investment manager expects to see double-digit price increases for years to come. The investment manager had the opportunity to confirm this with the company during their trip to Japan last month.

There were no other significant standouts from the loss column, either long or short, and the Fund's biggest gainers were limited to a contribution of about 1%. HPSP, featured below, is among this group.

Portfolio outlook and positioning

During the second quarter, the investment manager visited several of the Fund's holdings and prospective holdings in Korea, Taiwan and Japan and drew some conclusions. First, echoing the investment manager's comments about China above, the recovery in China is weak. The companies the investment manager spoke to noted this with regard to both consumption within China and production for export. Anecdotally, of course, this aligns with what the investment manager has heard about regarding the manufacturing shift away from China. It remains to be seen how exactly the portfolio's companies in Asia will be impacted, but the investment manager already can see a general shift of focus toward areas like Southeast Asia. The companies held in the portfolio are coping well so far, and few have direct Chinese exposure. The second general observation is that AI is a genuine tailwind, although it is unclear how durable it will be. While the US has just a couple of beneficiaries such as Nvidia, Asia is chock-full of component suppliers providing everything from servers to liquid cooling for overheated data centers. The investment manager heard a number of hyper-bullish forecasts that typically suggested new AI business would result in a reduction in volume but at a radically higher price and thus "a doubling of revenue." With some of these stocks up 300% in just a few months, the investment manager suspects much of this hype is priced in and they remain largely on the sidelines with some peripheral exposure in AI.

In recognition of the developments in China, the investment manager has reduced the Fund's industrials/basic materials exposure and its exposure in Europe with an increase of exposure in technology. Importantly, the investment manager is concerned about the valuations in "big tech," with names like Apple trading at price-to-earnings ratios of 30x while their revenue growth rates are negative. The last time Apple had negative revenue growth, its price-to-earnings ratio was half this level. Against this backdrop, the Fund's technology exposure is largely confined to growing, profitable and undervalued companies with exceptional business prospects. Below is a feature of a few of these companies, all of whom the investment manager had the opportunity to visit recently at their home offices in Asia.

Investment highlights

HPSP (Korea – $1.7 billion market cap)

HPSP, or "High Pressure Solutions Provider," focuses on providing equipment that improves yields in semiconductor wafer fabrication. While the concepts for HPSP began development almost 20 years ago, only in the last 5 years have their solutions become commercially accepted as critical to improving semiconductor fabrication performance.

HPSP (Korea – $1.7 billion market cap) (continued)

HPSP theorised that as wafer geometries shrank, the annealing process (which improves the uniformity of the wafer) under traditional high heat requirements would damage other so-called “high-K metal gate” materials that are necessary to reduce power loss and shrink wafer die size. As a solution to this problem, HPSP equipment conducts the annealing process under high pressure, vastly reducing the temperatures required and increasing yields by up to 5%. While 5% may not sound like much, high-end 300mm wafers at 2 or 3 nanometers geometries could produce 500 or 1000 chips/wafer (depending on chip size), and each chip is very valuable (for example, a single AI Nvidia chip can retail for over $30,000!).

To date, more than 70% of sales go toward logic semiconductor companies such as Intel, TSMC or Samsung where HPSP claims 100% market share. Below 10 micron, all annealing today is done using HPSP equipment. Equally exciting is that the same annealing challenges exist in the latest generations of memory semiconductor fabrication as well. Again, HPSP claims 100% market share with all the leading-edge memory fabricators (e.g., Samsung, Hynix, Micron, etc.). The market size here is equal to or larger than the logic market and HPSP is just getting started. HPSP also has high-pressure solutions that speed the oxidation process, which they believe can be another leg of growth that they hope to commercialize next year.

While claims of 100% share sound too good to be true, the proof is in the margins. HPSP’s CEO (from Applied Materials) understands “value-based” pricing. Sixty-nine percent gross margins and 53% operating margins are best-in-class for a semiconductor equipment company and demonstrate the value of HPSP’s products. Top-line annual growth has exceeded 80% over the last 4 years, which will slow due to base effect. However, there are many years of significant growth ahead as smaller geometry wafers grow in the mix, the memory fabs follow the logic trend, and new applications which use pressure in other fabrication steps potentially catch on. The investment manager believes 30x earnings is reasonable and would not be surprised if HPSP became a target for one of the larger equipment providers, such as Applied Materials or Tokyo Electron.

m-up Holdings (Japan – $300 million market cap)

m-up Holdings, a company the investment manager believes is very exciting over the long-term, has found itself in an enviable position in the budding e-ticketing market in Japan. Japan has historically restricted the re-selling and dynamic pricing of concert and event tickets. Moreover, tickets are still mostly physical paper and are distributed at 1 of 3 convenience store chains that use the opportunity to drive traffic into their stores. Because of these restrictions, artist “fan clubs” are incredibly popular, where fans pay about $3/ month to get exclusive content, merchandise and, most importantly, priority access to ticket releases. m-up builds and manages these fan clubs for artists and splits the proceeds 50/ 50 with them. This business has been profitable and grown steadily; m-up has 40% market share and has never lost an artist.

Things started to get interesting for m-up in June 2019 when Japan loosened its e-ticketing legislation, allowing for digital distribution, re-selling, and dynamic pricing. Because m-up is the leader in fan clubs and owns the 1st party data of ticket buyers, it is ideally suited to manage an e-ticketing business. The convenience store ticketing oligopoly also has no desire to invest capex in digital ticket distribution, so all three have signed exclusive partnerships with m-up, giving the company a quasi-monopoly in both primary and secondary e-ticket sales (eat your heart out, Ticketmaster). The e-ticketing launch has had fits and starts the last few quarters due to COVID restrictions, but after meeting with company management in Tokyo a few weeks ago, the investment manager is confident the e-ticketing business is about to take off. They just completed the 2nd of their 3 partnership integrations in calendar Q1 with ticket sales ramping in Q2, and management is rolling out the dynamic pricing feature this year as well. They expect 30-50% revenue growth for e-ticketing and much higher margins vs. the base Fan Club business. At 25x forward price-to-earnings, shares are overlooked with revenue growth about to accelerate and margins set to expand. The investment manager believes m-up can grow at a double-digit rate for years to come as the sale and exchange of event tickets continues to digitize.

SoluM (Korea – $1.1 billion market cap)

SoluM is the number 2 player in Electronic Shelf Label (“ESL”) globally, with approximately 30% market share. Unlike traditional paper shelf labels that typically require replacement an average of three times per month, ESLs allow store managers to update product information remotely from a central server. Against a backdrop of rising labour costs, ESL provides a way to gain efficiency and is the first step in automating retail operations. The industry's growth has more than doubled since COVID, and the investment manager expects it to remain elevated as retailers look to reduce labour costs. The top three players have maintained 80%+ market share over the last decade, all sourcing e-paper from E-Ink Holdings of Taiwan. E-paper is the display technology behind Amazon Kindle and is appreciated for its low power consumption and easy viewing under sunlight. SoluM manufactures the ESL modules in-house, giving the company a significant margin advantage over peers like France’s SES-imagotag that outsource manufacturing to BOE in China. Overall, the investment manager thought the company was impressive when they visited earlier this year and began building a position.

The investment manager believes there is a long runway for growth. The latest SES-imagotag-Walmart deal, which could be as large as the current global installed base, should accelerate growth in the US where penetration remains below 5%. France is currently the most penetrated market at 50%, and the investment manager believes US penetration can reach 30% by 2027. Higher average selling prices driven by increasing size and new features (colour vs. black and white) present more upside in the near-term. There are opportunities beyond retail, such as component management for manufacturing, and the total addressable market is likely to expand further.

SoluM (Korea – $1.1 billion market cap) (continued)

At approximately 12x forward earnings, SoluM trades at a meaningful discount to E-Ink Holdings (20x) and SES-imagotag (22x). The discount is largely explained by the mature electronic components business, which still represents 65% of projected 2023 revenue. However, the ESL segment should account for 2/3rds of operating profits in 2023, and the business mix will continue to shift toward this higher-growth segment. The investment manager expects the stock valuation to converge with peers as the overall returns on capital improve towards E-Ink's 20%+ over the next 12 months. The investment manager's model projects a forecasted CAGR of 35%+ in operating income over three years, suggesting 80%+ upside to the current stock price.

Material matters

The Fund has distributed to investors in the Fund for the period ending 30 June 2023. The distribution was attributed as taxable income. The attribution of taxable income has been offset with a corresponding cost base increase, which will be set out in investors' AMIT Member Annual Statement. You should obtain professional tax advice in relation to your own personal circumstances.

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.

This information contains general information only and is not intended to represent specific investment or professional advice. The information does not take into account an individual's personal financial circumstances, objectives or needs. Before making an investment decision, you should consider obtaining professional investment advice that takes into account your personal circumstances and should read the current target market determination and offer document before making an investment decision to acquire or to continue to hold units in the Fund.

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