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	**FUND SIZE**	$41.4m
ARSN	093 497 600	**EXIT PRICE**	$2.1228
INCEPTION DATE	31 March 2001		

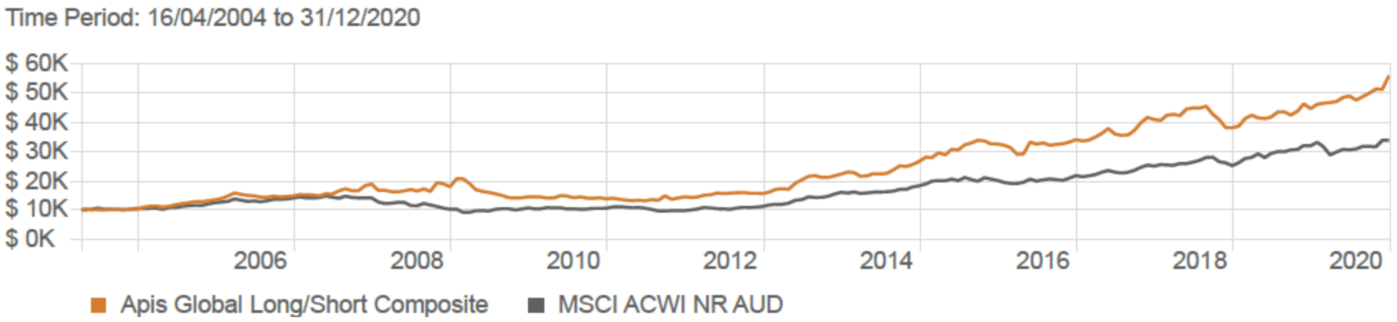
Net performance (%)

	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 Years p.a.	Since inception p.a.[2]
Fund[1]	**9.15**	**12.06**	**17.30**	**6.45**	**5.17**	**5.82**	**6.57**
[1]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.							
Apis Global Long/Short Composite[3]	**9.15**	**12.06**	**25.27**	**10.97**	**11.42**	**14.04**	**10.83**

Apis Global Long/Short Composite 1 month rolling returns[3]

CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
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**
2016	-1.27	-2.55	-7.22	0.41	13.84	-2.04	1.18	-2.41	0.97	0.71	1.67	2.49	**4.58**
2015	5.29	-0.66	6.12	-2.56	6.49	-0.63	5.83	2.00	2.69	-0.70	-2.83	-0.26	**22.07**
2014	3.29	-0.89	-5.51	0.57	3.44	-0.49	0.92	5.21	5.97	-0.86	2.66	4.36	**19.67**

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



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.

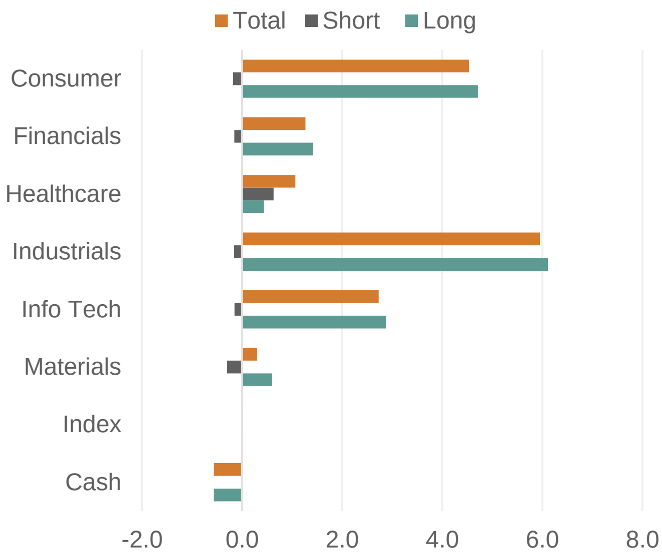
[2] This figure represents the annualised performance from the Fund's inception on 31 March 2001 and the Apis Global Long/Short Composite's inception on 16 April 2004.

[3]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.

Sector exposure (%)[1,2]

	Long	Short	Gross	Net
Consumer	23.56	-12.22	35.78	11.34
Financials	7.48	-1.94	9.42	5.54
Healthcare	5.28	-6.20	11.48	-0.92
Industrials	39.41	-5.72	45.13	33.68
Info Tech	21.10	-5.15	26.25	15.95
Materials	3.79	-1.01	4.80	2.79
Other	0.00	-0.72	0.72	-0.72
Total	**100.61**	**-32.95**	**133.57**	**67.66**

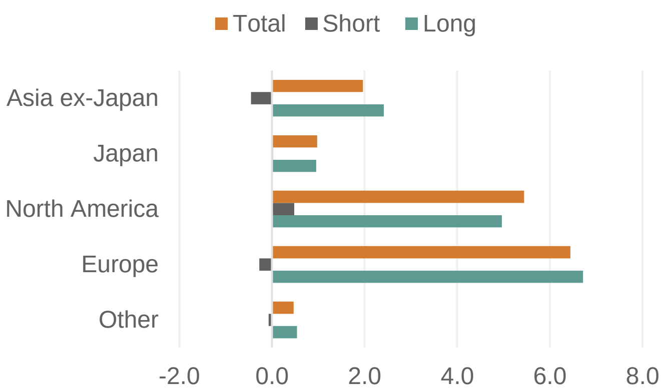
Monthly sector contribution (%)[1]



Regional exposure (%)[1,3]

	Long	Short	Gross	Net
Asia ex Japan	18.85	-3.24	22.09	15.62
Japan	8.35	-5.71	14.07	2.64
North America	28.54	-15.52	44.06	13.02
Europe	38.04	-7.92	45.96	30.12
Other	6.83	-0.57	7.39	6.26
Total	**100.61**	**-32.95**	**133.57**	**67.66**

Monthly regional contribution (%)[1,3]



Performance Review

The Apis Global Long/Short Fund returned 12.06% (net) for the quarter.

2020 was a year to expect the unexpected and the investment manager humbly admits being surprised, not only by the market's general strength under the circumstances, but also their ability to successfully navigate it. In the end, 2020 returns were the second best in their 17-year history with December 2020 being the single-best month. The Fund benefited from emerging tailwinds for small capitalisation companies as well as renewed interest in ex-US and emerging markets which can hopefully sustain, given years of relative underperformance.

At the macro level, the Fund's best returns came from the industrials sector (22.9% contribution), followed by consumer (up 17.1%) which aligns with the Fund's long-term success in those sectors. An outlier this year, however, is the regional performance contribution from Europe, which added 19.6% to returns compared with North American and Asia (including Japan) which added 13.7% and 14.4%, respectively. 2020 marks the first time Europe has led the way.

As self-described "stock-pickers," the most gratifying aspect of 2020 for the investment manager was the strength and breadth of positive contributors. Long side stock performance was outstanding, generating in excess of 68% to returns. Top companies such as West Holdings (Japan) and Kambi (Sweden) each contributed more than 5.0%, but in sum there were 26 companies that added more than 1.0% to returns versus 4 companies that detracted over 1.0%, and all these were crystalised in the first quarter crash. While there is nothing wrong with owning Tesla or other unicorns, the investment manager finds it satisfying there isn't a winner in the Fund that is a household name.

[1]Data is stated in USD terms and reflects the Underlying Fund.
[2]'Other' includes exposures from Index and Cash.
[3]'Other' includes countries outside the regions stated above.

Performance Review (continued)

For the quarter, there were 12 holdings that each added over 1.0% to returns, led by Darling Ingredients in the US (up 2.6%) and Evolution Holdings in Sweden (up 2.1%). Other winners included Rush Street Interactive, Myokardia, Flatex, and Global Wafers to name just a few. Part of success is avoiding failures and the largest quarterly loser was Pexip Holding (Norway) which only detracted about 0.3%.

On the short side, the fourth quarter was better, with notable winners stemming losses. The top short was Penumbra, which fell on reports that the company misled investors about its flagship products for treating ischemic stroke. Another notable winner, Beyond Meat, declined on weak third quarter results. With 3% third quarter growth valued at 20 times sales for a food product company that will never achieve high margins, the investment manager thinks this unicorn has considerably more distance to fall.

Investment Highlights

Cornerstone Building Brands (US – $1.5 billion market cap)

The homebuilding market is currently having a sharp resurgence, with prices across the nation up approximately 8% year-on-year. This is a level that was last touched briefly in 2013 and 2014 but hasn't been sustained since prior to the housing crisis. New home building, remodelling and home sales are all very strong. As a result, the inputs to homebuilding are seeing meaningful inflation for the first time in a decade. Products ranging from doors to faucets, roofing, lumber, flooring, siding, windows, and insulation are all up 5-10% or more. Demand isn't the only driver behind this growth as supply has also been reduced by COVID 19 as labour is in short supply for manufacturing these items. While 5-10% may not sound too dramatic, consider that a company with a low, single-digit income margin could see its profits double if these price increases pass to the bottom line.

Cornerstone Building is one such company the Fund owns. Cornerstone specialises in homebuilding products where they are the dominant manufacturer in the US of both vinyl siding and windows as well as corrugated steel warehouses. The company was formed through a merger in 2019 and has been quietly focused on increasing its margins and rationalising the business. They recently posted their sixth quarter of margin expansion, a herculean feat given this past year's economy. The stock is on 15 times current earnings, but these earnings don't yet reflect the recently announced price increases which could cut this multiple in half (or even less). Cornerstone is a cyclical business which will naturally trade at a low multiple near the peak of its cycle, however, this cycle looks like it's much closer to the beginning than the end. The investment manager sees the potential for about 90% upside in the shares from current levels.

Impala Platinum Holdings (South Africa – $10 billion market cap)

Most investors have never heard of the most valuable metal in the world at the moment, rhodium. Rhodium currently trades at nearly $19,000 per ounce, or 10 times the price of gold. Rhodium is in severe shortage because it is used in catalytic converters for automobiles. Passing hot exhaust through a honeycomb filter coated with minute amounts of rhodium along with its sister metals of palladium and platinum causes toxic gas, notably nitrogen oxide, to separate into its much safer constituents of nitrogen, oxygen and water. Importantly, there are no substitutes for using these metals and every major country including China is ratcheting up their auto emissions requirements, thereby driving demand increases which far outstrip supply. Supply is particularly constrained as the mines are largely confined to two geographic sources with one in Russia and the other in South Africa where an oligopoly of just 4-5 companies controls most of the production.

The third largest of these producers is Impala, which is focused on a portfolio of mines in South Africa where they produce significant amounts of rhodium, palladium and platinum. Platinum has struggled to keep up with palladium and rhodium as it is primarily used in recently shunned diesel engines, however, palladium and rhodium have seen their prices rise 100% to many times that over the past few years. Impala's share price has risen, but still reflects significant scepticism around the sustainability of these metals' prices with the shares trading at just 3 times earnings before interest, taxes, depreciation and amortisation ('EBITDA') and 5 times earnings. The investment manager thinks Impala is an "ugly" mining company sitting at the heart of a "green" agenda being aggressively embraced around the world. This trend is not going to be a traditionally shaped boom-bust cycle, but it could sustain much longer than the market is giving it credit for. With no debt and enormous cash flow generation, the investment manager sees Impala's shares rising 50-100% from current levels.

Swancor Holding Company (Taiwan – $500 million market cap)

Swancor in Taiwan, which the investment manager highlighted in last quarter's letter, offers attractive growth prospects as one of the beneficiaries of the upcoming expansion in the offshore wind market, yet at a much more reasonable valuation than other, more widely recognised "green" energy stocks. Swancor generates more than 75% of its revenues from resins and carbon fibre that is used in offshore wind turbines and their blades. The company had early success supplying to Chinese wind turbine producers, however had not broken into the major international producers until recently. Helped by localisation requirements in the burgeoning Taiwanese offshore wind market, Swancor signed its first supply deals with major turbine players Siemens Gamesa and MHI Vestas in 2018 and 2019, respectively, which are now starting to bear fruit. The Taiwanese market will be one of the fastest growing offshore wind markets in the next 10 years, growing installed capacity by a 55% compound annual growth rate ('CAGR') and providing Swancor with plenty of runway for growth. In fact, Swancor should also benefit from the growth in other Asian markets like Japan and South Korea which are forecasted to expand offshore installed capacity by 10-year CAGRs of 81% and 50% respectively, compared to a CAGR of just 15% in Europe over the same time frame. Thanks to Swancor's new customer wins and exposure to the fast-growing Taiwanese market, the investment manager forecasts core earnings to grow by approximately 50% in 2021.

Investment Highlights (continued)

This puts the stock on a very reasonable 15 times price-earnings, especially compared to other renewable energy suppliers like TPI Composites on 37 times, CS Wind in Korea on 38 times, or Gurit on 27 times.

Maire Tecnimont (Italy – €630 million market cap)

Maire Tecnimont is a well-known EPC (engineering, procurement, and construction) company based in Italy that helps its customers design and manufacture different types of production facilities across the world. Historically focused on hydrocarbon projects (oil & gas, petrochemicals, and fertilisers), it has recently been expanding into the renewable segment with projects in hydrogen, wind, railway, etc. It is starting to work on exciting projects in green hydrogen, or hydrogen produced via electrolysis.

Neowiz Corporation (South Korea – 500 billion Korean won market cap)

Neowiz is a Korean game developer and publisher that has been around since 1997 and was started by former employees of Nexon. Most of its sales come from popular casual games in Korea, such as Pmang Poker and Pmang Slots, but it is also one of the most well-respected publishers of 3rd party games in Japan. Neowiz is by far the cheapest stock among its gaming peers at 9 times street earnings-per-share (8 times ex cash), despite growing an impressive 15-20%. Part of its valuation discount is due to its historical focus on casual games and recent loss of a publishing deal in Japan, however the investment manager thinks things are about to change.

The Street (online investment news outlet) is modelling revenue growth deceleration in the fourth quarter and 2021, but this is far too conservative in the investment manager's opinion. Neowiz is about to release a very well-reviewed self-developed game called Bless Unleashed and has two large games it will be publishing in Japan (to replace the one it lost). Not to mention its large casual games business is getting a boost from recent deregulation in Korea and continued COVID 19 lockdowns. The investment manager anticipates these catalysts will create both better-than-expected results and multiple expansion over the next few quarters with rock-bottom valuation, creating an attractive risk-reward scenario.

Market outlook and positioning

The tendency for a "bad" year to follow an especially strong one tempers the investment manager's enthusiasm for markets. Social media is rife with retail investors discussing what they are going to do with their stimulus checks. Many are looking to buy more Tesla or Bitcoin. There are certainly many parallels with the Internet bubble of 2000 and the most heartening thing the investment manager can draw from that experience is that when the bubble pops (and it may not be this year), it should discriminate between real companies and pretenders. The investment manager is building lists of companies that they believe have the potential to decline in value by 80% or more. As ever, the investment manager remains pragmatic and has no delusions of calling a top in the market but are prepared to be more active when the mood shifts. On the other side, especially in the small-cap area, the investment manager has plenty of durable, high-growth businesses on cheap valuations. Single-digit price-earnings multiples, strong growth and good balance sheets are plentiful in the Fund's segment of the market.

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.