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**	$172.2m
INCEPTION DATE	31 March 2001	**EXIT PRICE**	$3.5388

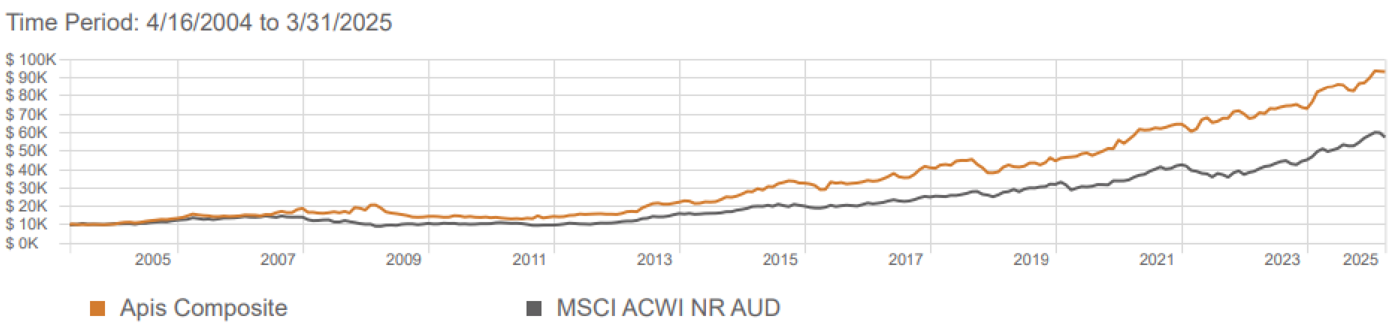
Net performance (%)

	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]	**-0.22**	**3.78**	**11.82**	**14.58**	**15.15**	**10.30**	**8.37**	**7.64**
[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[2]	--	--	--	--	**14.81**	**11.80**	**12.15**	**11.22**

Apis Composite 1 month rolling returns[2]

CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2025	4.26	-0.24	-0.22										**3.78**
2024	5.12	7.05	1.59	1.62	0.36	1.41	-0.35	-3.33	-0.61	5.14	0.36	3.11	**23.17**
2023	-3.51	0.88	3.76	-0.71	3.88	-0.25	1.30	0.90	0.22	0.89	-2.07	-1.03	**4.06**
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[2]



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 distribution. Returns are rounded to two decimal places. Slight variations to actual calculations may occur. Significant investor activity can impact performance returns in a fund or of a class of a fund.

[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.

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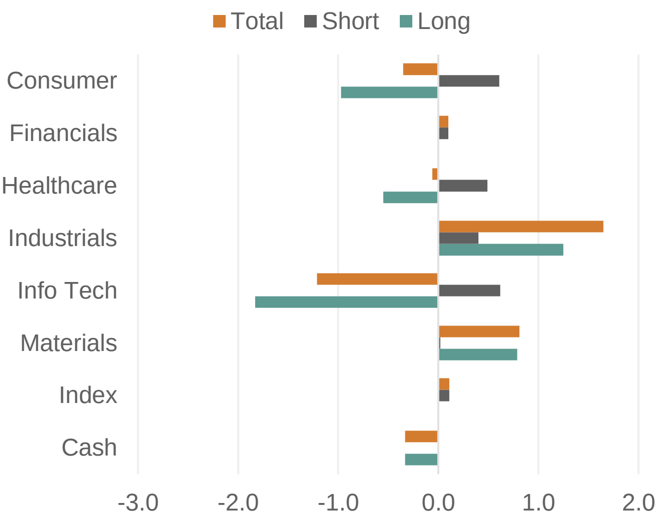
Sector exposure (%)[1,2]

	Long	Short	Gross	Net
Consumer	6.07	-11.42	17.48	-5.35
Financials	0.00	-1.96	1.96	-1.96
Healthcare	10.16	-3.57	13.72	6.59
Industrials	40.80	-4.62	45.42	36.18
Info Tech	13.47	-7.92	21.39	5.56
Materials	11.67	-1.08	12.75	10.60
Other	0.00	-3.61	3.61	-3.61
Total	**82.18**	**-34.17**	**116.34**	**48.01**

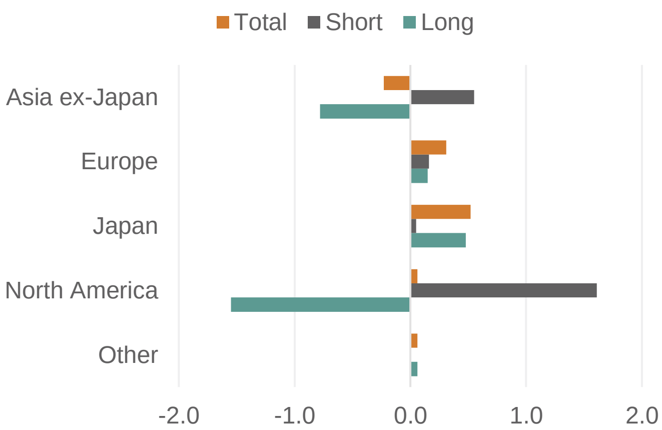
Monthly sector contribution (%)[1]



Regional exposure (%)[1,3]

	Long	Short	Gross	Net
Asia ex-Japan	28.96	-7.14	36.10	21.81
Europe	15.58	-5.02	20.60	10.56
Japan	6.84	-2.28	9.12	4.56
North America	29.56	-19.54	49.10	10.02
Other	1.24	-0.18	1.42	1.06
Total	**82.18**	**-34.17**	**116.34**	**48.01**

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 3.78% (net) for the quarter (in Australian dollar terms).

2025 is off to a good start for the Flagship Fund, with positive returns during the first quarter across both longs and shorts. Regionally, the story for the quarter was strong outperformance in Europe, which saw impressive market performance (up over 10.0%), and stocks there are still trading at a significant discount to US peers. This contrasted starkly with declines in major global benchmarks, particularly in the US and Japan. Asia ex-Japan also performed well, gaining over 5.0%.

The Fund benefited from exposures tilted away from the US, with greater focus toward Europe but especially Asia ex-Japan, which contributed 4.8% to returns, with Europe adding about 2.0%. The biggest contributors to returns came from the defence sector, with names in South Korea and Europe outperforming. Defence stocks, especially those linked to European initiatives aimed at bolstering defence spending, were key drivers of this success – a secular trend the investment manager will touch on more below. On the flip side, the fund's exposure to Japan (down 1.8%) and US (down 0.6%) detracted from returns. Strong short positioning in the US helped offset much of the downside. The Fund's exposure to small-caps continues to be a headwind, but not as stark as it's been, with the MSCI-SMID underperforming the larger cap benchmark by about 0.5%.

Performance review (continued)

The technology and healthcare sectors were the biggest detractors from performance, while all other sectors showed positive results. Industrials stood out as a top performer, contributing more than 7.0% to returns. This was driven by defence-related industrials, which reacted positively to European initiatives to shore up defence. Short performance was positive across all sectors, with the best results coming from technology sector.

The investment manager's leading long positions were all defence names, with strong performances from two companies in South Korea and one in Europe. While several larger defence names attract attention, the investment manager continues to uncover new opportunities in defence supply chains, focusing on names that are less well understood and have potential for discovery. On the downside, technology and healthcare names underperformed, with the top detractor being Lotes (Taiwan), which detracted about 1.0% as Artificial Intelligence stocks saw a pullback. On the short side, Moderna was the top contributor, just as it was for much of last year. Detractors were modest, with SMA Solar among the losers, as the stock staged a technical bounce after a poor 2024.

Portfolio outlook and positioning

As the investment manager initially began drafting this letter, their thought was to focus on Europe, which they believe is at a turning point. The region's stimulus measures are set to have important long-term implications. The scope for turning on the spigot in Europe is far greater than in the US, considering Europe's substantially lower debt burden.

The investment manager will continue to focus on this theme, although as they write, the markets have turned sharply down on President Trump's "Liberation Day" tariff surprise.

The current plan is not (yet) worth commenting on. Its specifics remain unclear – it's uncertain what the plan actually entails, how it will be implemented, or what success would even look like. From the investment manager's perspective, targeting trade deficits, especially with poorer countries that produce essential goods, seems misguided. Even if there was a coherent strategy, history has shown us that it could all change overnight. No company is likely to put time and money into new manufacturing capabilities without a clear, stable, long-term framework in place. Therefore, the investment manager believes that one of two outcomes will emerge: either a more sensible policy will be introduced soon, or the current plan will cause enough disruption that it forces revisions. In either case, the investment manager expects the current strategy to fail – and the sooner the better.

As for portfolio positioning, the investment manager remains committed to their historical approach. They will continue to use market volatility to "upgrade" the portfolio while not radically changing gross/net positioning. The combination of volatility and reduced liquidity in smaller companies can create outsized technical moves. Already this month, the investment manager has seen a number of high-quality "franchise" companies or those with solid backlogs fall by 20 or 30%. They view these sharp declines as opportunities to prudently "buy the dip," all the while ensuring that the overall portfolio remains well-positioned to weather what could remain a challenging environment.

Investment highlights

The Opportunity in E.U. Building Materials

A new theme in the portfolio is the building materials sector in Europe, which has experienced significant volatility over the past two decades, marked by the housing crisis and the COVID-19 pandemic. More recently, construction activity surged to a post-financial crisis high in 2021 in Europe, only to collapse by 60% in 2023 due to over-investment and rising interest rates. Current data, however, shows signs of stabilisation, particularly in building permits, suggesting the market may be finding its footing.

E.U. Residential Building Permits and the Outlook for Recovery

There are several key points worth highlighting about this cycle. First, current construction volumes are well below historical averages, which could lead to structural shortages if these levels persist. As a classic cyclical market, it is not a matter of if these volumes recover, but when. The investment manager believes that recovery could come sooner rather than later, especially with the current interest rate cycle appearing to turn in favour of growth. The recent cuts by the European Central Bank are expected to continue at least through June, and increasing tariff uncertainties may spur additional rate cuts.

Another significant factor at work here is related to fiscal stimulus. Germany recently announced a €500 billion infrastructure investment plan. While this was surprising, what was equally, if not more so, was the loosening of its constitutional debt brake. This shift in policy, considered sacrosanct, signals the government's commitment to stimulating growth. While it is largely speculation, it's plausible that other EU countries may follow suit. Additionally, the potential end to the war in Ukraine presents a long-term rebuilding opportunity; everything from concrete and doorknobs to utility services will be required. While investment in Ukraine is currently minimal, post-war recoveries often lead to a surge in construction, sometimes doubling pre-war levels and lasting for a decade. Given the size of Ukraine's population (nearly 10.0% of the EU), a post-war rebuilding effort could tighten the building supply markets, driving up manufacturing volumes and pricing.

Additionally, tariffs present a new wildcard, particularly for the US, which will most likely lead to higher prices as it is a net importer of cement. This should benefit European producers, who have significant exposure to this market.

Investment highlights (continued)

The Cyclical Nature of the Building Materials Industry and Cement Market Focus

The building materials industry is inherently cyclical, which is often seen as a disadvantage for investment. However, the investment manager believes the cycle is at a turning point, creating an attractive opportunity. They have specifically focused their attention on the cement market for several compelling reasons.

Cement is a highly localised market wherein a single plant will only serve a radius of customers within 200-400 kilometres due to the weight and bulk of the product. Similar to many other industries like memory chips, airlines, and railroads, the cement industry is now run by MBAs who have figured out that consolidation is critical to maintaining pricing power. Over the past two decades, the investment manager has witnessed a flurry of M&A activity, reshaping the industry and resulting in a highly profitable landscape even at the bottom of their cycle. Margins are currently near all-time highs across the industry, which is highly unusual for a cyclical commodity. While the investment manager has been unable to get plant-by-plant market share figures, it is widely accepted across the industry that within each region, there are typically no more than two or three dominant operators. This concentration has enabled cement companies to hold or even raise prices despite operating at just 60% utilisation in their European plants.

The Impact of Carbon Emissions and Regulatory Pressures

The last important driver of the investment manager's thesis relates to carbon emissions and the growing pressure to reduce them. Cement production, which involves plants essentially baking limestone, inherently releases CO_2. The process itself and the fuel used to generate the necessary heat both contribute to CO_2 emissions. As a result, cement companies face increasing regulatory scrutiny and regulatory pressures to reduce their carbon footprint. The cement companies have been given credits for free, but those grants are being reduced annually, forcing companies to either purchase additional credits in the marketplace or bury their CO_2 through carbon capture. For perspective, the current price of cement is about €120 per ton and the cost to offset the carbon for each ton is another €30-40 today. These credits trade on an exchange and analysts anticipate a growing shortage that could increase this cost by multiples. Companies are experimenting with carbon capture (and the first plant should go live next month), but the technology is costly, and pricing for cement processed this way is expected to reach €300-500 per ton.

It remains to be seen if the powers that be will have the stomach to continue down this path. What is certain, however, is that no one is going to build a new plant, and the 20-30% of the market that is still "mom & pop" operators will most likely sell to the handful of companies remaining. While carbon charges seem like a bad thing for the industry, the opposite is the case as they drive further consolidation, more pricing power, and less competition. Starting next year, a carbon border adjustment will be imposed, meaning foreign manufacturers shipping cement into the EU will also have to purchase these credits, further tightening the market.

Attractive Valuations in a Cycle Turnaround

Given the top-down dynamics described above, the investment manager were surprised that many of these companies are still trading at very low valuations. The investment manager has holdings in Buzzi (Italy), Cementir (Italy), Titan (Greece), and Wienerberger (Germany). Wienerberger is slightly different from the other names as they control about one-third of the European brick market and are even more cyclically exposed than the cement names. The average P/E ratio for these is around 8x, with the highest at 9x. Free cash flow yields are around 10% and all pay 2-3% dividends. The investment manager believes these stocks have significant upside potential, driven by a volume recovery that could substantially boost earnings and a potential rerating of valuation multiples. Cyclical stocks that can deliver record margins at the bottom of a cycle typically trade at much higher multiples. The investment manager expects investors will begin to recognise this opportunity as the current downturn fades and growth resumes.

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.

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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