Dear Partners,

The Apis Deep Value Fund was up 1.4% net in Q4 2024 and was up 8.5% for the year. During the past quarter, our longs contributed 0.4% (gross), and our shorts also contributed 1.6% (gross). At the end of December, the Fund was approximately 69% net long with the portfolio 104% long and 35% short.

PERFORMANCE OVERVIEW (GROSS RETURNS)

2024 ended strong with December returns leading overall performance. For the year, gross returns trailed the index (MSCI ACWI Global) but beat the smaller-cap MSCI SMID by a couple percentage points. The performance of these indices was once again heavily influenced by large-cap U.S. stocks, which posted a significant challenge for the Fund, given its focus on ex-U.S. and small-cap equities. The stark contrast of returns – the MSCI U.S. (up 23.4%)[1] vs. MSCI ex-U.S. (up 2.2%)[1] and small cap (MSCI SMID up 8.7% vs. large up 17.5%)[1] – illustrates for us a top-down positioning mismatch. With a strategy dedicated to small capitalization companies, we remain steadfast in our belief that the compelling growth and valuation advantages we see will normalize in our favor. As to regional allocation, we have moved to a more moderate underweight U.S., primarily as we "feed" names that are "working" and "starve" those which lag.

Given top-down positioning, it was an excellent year for stock-picking. Notably, our shorting eked out a small, positive absolute return despite the broader market's rise. Another area of strength was Korea. While the market was among the worst globally (down almost 21.0% USD terms),[1] we managed to gain 1% (-0.9% long and +1.8% short). Conversely, we underperformed in Japan, losing 1.9% in a market that rose over 4% in the year. Our timing was poor as we added early in the year as momentum for the "Japan story" built up but failed to sustain over the rest of the year.

The top performer for the year was HD Hyundai Electric (Korea), which added nearly 5% to returns. Other solid gainers were Red Cat Holdings (U.S.), Maire (Italy), and SÜSS MicroTech (Germany). The top detractors were KINX and NanoTIM (Korea), each detracting over 1%. On the short side, Moderna was the big winner (we still like it), with a few solar/battery-related names also doing well. Archer Aviation was the largest Q4 short detractor (off 35 bps), with other "meme" stocks also cutting into the year. Archer, which makes EVTOLs (electric vertical takeoff and landing or flying electric cars), is emblematic of the current risk-taking frenzy, tripling in November/December. Archer will need to raise billions to succeed, but we remain skeptical even if they do, as the company will have many competitors.

[1] MSCI index data.

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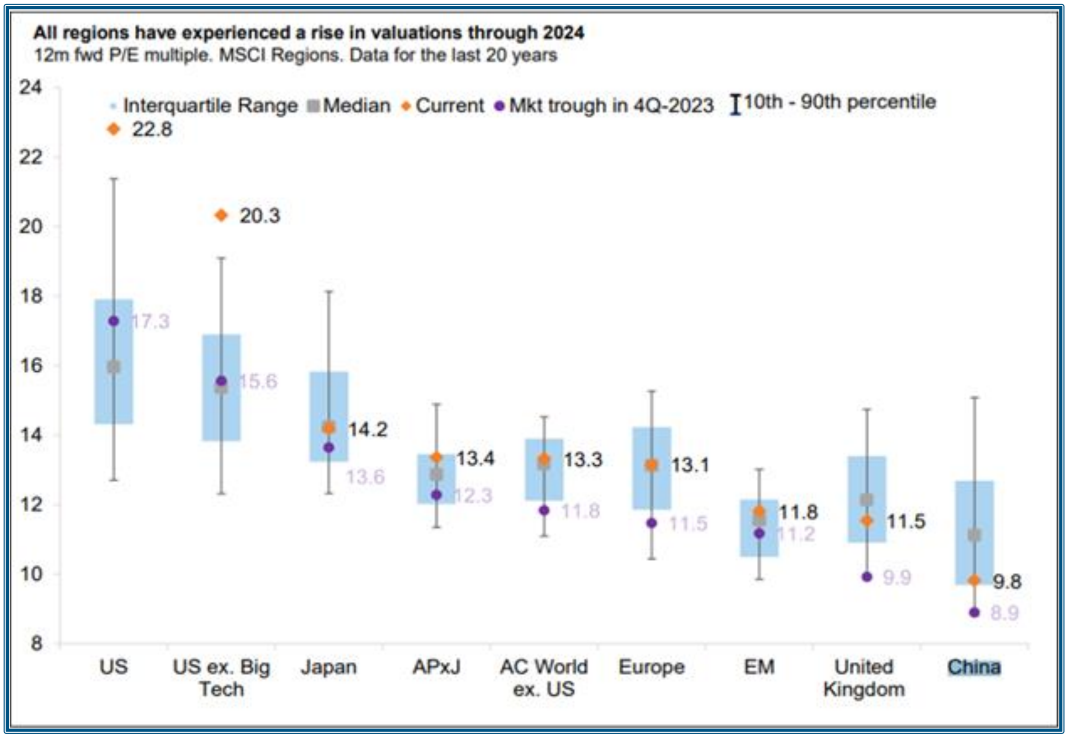
PORTFOLIO OUTLOOK AND POSITIONING

Rather than rehashing how expensive the U.S. is relative to other markets…



Source: *Goldman Sachs*

…or how years of outperformance have left the U.S. overrepresented in the global indices (a 63% weighting is getting ridiculous!)…

…or the persistent undervaluation of small companies, we thought it would be more valuable to focus this letter on highlighting some top ideas that we think will work in 2025, despite the damning characteristics of being small and/or outside the borders of the United States. It's worth remembering that Japan, once accounting for 37% of the world's market capital, now represents just 6%...

INVESTMENT HIGHLIGHTS

Long Ideas

Hallador Energy (U.S. – $500 million market cap)

Hallador is just over a 4% position in our Deep Value Fund. The company owns a coal mine and an electric power plant in Indiana, where it is poised to benefit from a dramatic increase in average power prices in 2026 when current contracts expire. We believe Hallador could potentially earn twice as much as the Street is estimating for 2026. Trading at just over 4x P/E for 2026, the stock is valued at less than half of its peers. We think the timing is favorable as Indiana is a key hub of data center activity, which could further drive power demand and prices upwards. We anticipate that growing sentiment driven by this theme, along with announcements of lucrative power contracts, should result in both upward revisions to earnings estimates and increased investor attention.

Iljin Electric (Korea – $900 million market cap)

This 4.5% position is an under-the-radar Korean electrical equipment company. High-margin export sales of transformers are expected to drive a more than 50% increase in earnings for 2025. Trading at just 12x earnings, with orders booked through the end of the decade, we anticipate robust growth and a potential re-rating, which should propel the stock much higher.

Osaka Soda (Japan – $1.6 billion market cap)

Osaka Soda is a 3% position in the Deep Value Fund. Superficially, the company appears to be an unexciting chemicals company. A closer look, however, finds its healthcare (HC) segment, while only representing 12.5% of sales, accounted for 54% of operating profit in 2024. This success is driven by the company's market-dominant position in supplying silica gel beads, a key ingredient in the production of peptide drugs, including the blockbuster weight loss drugs, Ozempic and Wegovy. While struggling to add capacity to keep up with demand, we believe sales in the HC division will grow 20-30% for the next several years. With a P/E of 14x forward earnings, we see more than 100% upside.

Red Cat Holdings (U.S. – $900 million market cap)

One of the "spicier" names in the portfolio (about a 5% position), Red Cat (RCAT) is a leading supplier of drones, primarily for military applications. The stock surged in 2024 following a major $500mm contract with the U.S. Army to provide field reconnaissance drones. Based on current orders, RCAT trades on a price-to-earnings multiple of 100x next year's earnings. However, the company's recent transformative Army contract opens the door to additional opportunities with other military branches and NATO countries. We expect the momentum of the drone theme/narrative to drive the stock's growth as the incoming Trump administration is highly supportive and weary of alternative (primarily Chinese) suppliers.

Talen Energy (U.S. – $9.5 billion market cap)

Talen is a 3% position in the Deep Value Fund. As an independent power producer (IPP), it owns the 6th largest nuclear power plant in the U.S., located in a region poised for significant power price increases driven by rising demand from data centers. Talen already secured a contract with Amazon to supply power to a data center campus at prices 50.0% above the forward curve and has the capacity to sign similar agreements in the future. While the stock may seem expensive on current earnings, it is only 12x our 2026 free cash flow estimates, a significant discount to its peers. Management continues to capitalize on this gap through an aggressive repurchase program.

Turning Point Brands (U.S. – $1 billion market cap)

Turning Point Brands (TPB) is a 3.5% position in the Deep Value Fund. The company holds a dominant market share in several tobacco-related end markets, most notably rolling papers/cigarette wraps and oral tobacco. Combined, these segments are expected to grow at a steady mid-single-digit rate. However, we anticipate double-digit EPS growth as the company continues to pay down debt and repurchase shares. With a 16x P/E multiple, we believe shares offer an attractive (albeit modest) return. What excites us even more is TPB's launch of its nicotine pouch product, FRE. The nicotine pouch market is large ($3bn) and growing fast (50% annually); even a low-single-digit market share could significantly move the needle for TPB and its growth prospects.

Short Ideas

Guangzhou Automotive (China – $9.5 billion market cap)

This short position is part of a broader theme we have identified in the Chinese automotive industry. Although Guangzhou produces a significant number of self-branded vehicles, the company's historical profits have been driven almost entirely by joint ventures with Toyota and Honda in China. The crushing competitive environment (led by BYD's dramatic ascent) has wiped out these foreign JV profits, with the dynamic playing out across the industry. Sales are collapsing, and the company recently reported two consecutive quarterly losses for the first time in a decade. With no clear path to recovery, we see no end in continued disappointing financial results.

Plug Power (U.S. - $2 billion market cap)

Plug is a U.S.-based hydrogen company that has struggled to build a viable business. While the company aims to offer a fully integrated hydrogen solution for customers keen on transitioning to a hydrogen economy, it has struggled to make a profit, burning through $200 to $400 million per QUARTER for several years. Plug has become a habitual capital-raising machine that has massively diluted shareholders. The company's financial success hinges on the eventual emergence of a hydrogen economy – an outcome we remain skeptical about given the current economic, technical, and political challenges. We believe Plug will continue to struggle, burning cash and putting pressure on its share price.

Sonova (Switzerland – $19.5 billion market cap)

Sonova is a Swiss hearing aid manufacturer. Hearing aid companies generally have de-rated on increasing generic competition and the growing distribution strength of warehouse stores such as Costco. Sonova had a strong relationship and 50% share at Costco historically, but it was dropped in 2022. One of the key reasons investors are excited about Sonova is their re-entry at Costco. We are less enthusiastic about it, expecting their "me too" product to perhaps get 20% market share over time against several other strong competitors. We expect earnings to disappoint and the 80% premium valuation versus peers to shrink.

As always, we encourage your questions and comments, so please do not hesitate to call our team here at Apis or Will Dombrowski at +1.203.409.6301.

Sincerely,

Daniel Barker
Portfolio Manager & Managing Member

Eric Almeraz
Director of Research & Managing Member

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