Otter Creek Long-Short Opportunity Fund Q2 2018 Webinar Transcript

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Speakers:

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Transcription:

S1 00:04 Good afternoon, and welcome to the Otter Creek Advisors Q2 2018 Conference Call and Webinar. All participants will be in listen-only mode. After today's presentation, there will be an opportunity to ask questions. If you're at your computer, please submit questions in the questions chatbox located on the bottom of your webinar control panel, or you may submit your questions directly to trogers@dakotafunds.com. Please note, this event is being recorded. I would now like to turn the conference call over to Mr. Tyler Walling and Mr. Mike Winter, portfolio managers for Otter Creek. Gentlemen, please go ahead.

S2 00:37 Thanks, Tracy. This is Tyler Walling speaking. We are going to begin today's call by providing a brief overview of our firm, strategy, investment process. We will then review second quarter performance. Next, we will discuss our macro and market observations. We will then highlight investment themes, new ideas, and the composition of the portfolio. Let's start with slide 2. Otter Creek Advisors is a fundamentally focused, value-oriented alternative fund manager. We have managed the strategy of mutual fund construct since December 2013. The firm is 100% employee-owned. As of June 30th, the Otter Creek Long/Short Opportunity Fund managed $165 million in assets. Otter Creek Advisors also advises a $65 million separate account that is run similar to the Otter Creek Long/Short Opportunity Fund.

S2 01:19 Turning to slide 3. The goal of our Long/Short mutual fund is to generate absolute investment returns with below average volatility. Historically, we have experienced low correlation and less than half the volatility of the S&P. Moving to slide four. Here you can see our attribution, both long and short, for 2018 through June 30th. The fund was down to 1.6% versus the S&P, up 3%. Our long book was up 3.1%, while carrying high teens cash exposure. Our short book detracted 4%, inclusive of puts. The fund was up approximately 40 basis points for the second quarter. As you can see from this side, the shorting environment has been difficult since the November 2016 election, as risk assets moved sharply higher. However, for the reasons I will detail later on, we do believe this dynamic is most likely going to change going forward.

S2 02:10 Turning to slide 5. For the quarter, the portfolio generated relatively flat returns in all sectors except for consumer discretionary, which we anticipate to reverse in the second half of the year. Global trade war concerns drove a large amount of inflows in the US consumer stocks as investors view consumer companies immune to trade war risk. In addition, rapid inflows into domestic names, created a broad-based short squeeze among nearly all stocks, especially consumer stocks, through mid-May and June. In then near and medium term, we can expect to profit from a huge disconnect between sectorly challenged consumer names and their stock prices, which is reflected in our net short position in the space. The largest winner for the quarter was the technology sector, where we profited from several semi-shorts, and Symantec, which we discussed over the last several quarters.

S2 03:01 Moving to slide 6. The table on the left shows top contributors during the quarter. The largest winners were a balance of longs and shorts. Symantec was the largest winner during the quarter. Symantec shares declined 20% after the company issued very disappointing guidance, and announced an accounting investigation. Symantec was our second largest short coming into the quarter. We covered our entire short position and sold our puts. Middleby and Teradyne declined over 15% on the back of a weaker than expected earnings and outlook. Both names were Top 10 shorts coming into the quarter. We covered both Middleby and Teradyne and sold our puts. Seacoast and Ashland rose after reporting strong earnings results and favorable forward outlook. Each name remains a Top 10 long. Turning to the table on the right, the largest detractors were all shorts. Excluding Financial Engines, our largest short losers were actually all under a 1.5% common stock position but appreciated meaningfully, driven by a surge in consumer and tech stocks broadly.

S2 04:04 Canada Goose is a manufacturer of high-end parkas that sell for over $1,000, trading at 70 times earnings. The stock appreciated due to investors' bullishness towards domestic consumer growth companies combined with the company posting a modest profit in what is typically a quarter they lose money. We covered our entire position post earnings for risk management purposes. Financial Engines appreciated after the company announced it was being acquired. While unfortunate, Financial Engines is only the second short position that we've had in nearly four years that has been taken out. Tesla moved higher driven by short covering and optimism around the company producing 5,000 Model 3s per week. We remain very skeptical of the Tesla story post conversations with industry consultants and former employees, especially around the company's ability to generate a stable cash flow. We maintain a 1% common stock short position and own several puts.

S2 05:00 Netflix is slightly over a 1% common stock short during the quarter and we own puts. However, despite a relatively modest short position, the company was a large detractor after the stock surged, along with most momentum-oriented tech stocks. We covered our common stock short position due to risk management, but maintain a put position as we are increasingly skeptical the company can sustain its growth trajectory and valuation, coupled with increasing competition from over-the-top, and the company continues to burn massive amounts of cash. Ollies increased due to favorable earnings results. We continue to question the long-term sustainability of the deep discount close-out business model, and believe the company may begin posting negative comps later this year. We maintain a 1.5% common stock short and a put.

S2 05:48 Let's move to slide 7. For those of you who may be new to Otter Creek, I will briefly discuss our investment process. Our portfolio is fairly concentrated relative to our peer group with 30, 35 longs and 30, 35 shorts. In addition, we express a portion of our short exposure in individual names via put options, typically 2 to 3 percent of capital. This serves as a twofold purpose. One is a risk management tool, as we know the amount of capital at risk. And, two, it allows us to leverage our best short idea. We view ourselves as bottoms-up stock pickers that implement a macro overlay where we frame the macro and market environment, which can help us generate thematic ideas. Thematic ideas combined with individual idiosyncratic ideas make up the portfolio. An output of the investment process is that the portfolio will experience tracking error relative to indices, which leads to low correlation of our return stream.

S2 06:38 Moving to slide 8. The second quarter was marked by a continuation of significant flows and outperformance of growth-oriented tech stocks, with the NASDAQ up 7% relative to the DOW up 1%. Year-do-date, value stocks has underperformed gross stocks by the widest margin in over a decade. Second, as I discussed, a significant short squeeze took place primarily in consumer stocks. The Goldman Sachs Discretionary Most Short Index appreciated over 20% from mid-May to the end of June. Third, in aggregate, world stock markets fell 7 to 8 percent since the January highs. However, the NASDAQ has continued to defy gravity, which has kept the S&P positive for the year. We own a basket of puts in many NASDAQ-related names, where we think competition is set to impact growth, yet evaluations continue to rerate higher.

S2 07:30 Turning to slide 9. The global macro environment diverged during the quarter. The US economy continues to grow, with both manufacturing and service components of the economy strong, as you can see from the table on the upper left. Internationally, the macro picture's mixed. As shown on the table on the upper right, Euro's own PMIs have slowed, especially the manufacturing sector. Forward-leading indicators suggest muted industrial growth in Europe year term. The table on the bottom left highlights the weakness in the emerging market currency index, which typically leads OECD for developed countries industrial production, again implying a slowdown in industrial production later in 2018 and 2019. Lastly, the table on the bottom right shows US GDP growth forecast being modestly revised higher in the US, while emerging market growth forecasts have been revised modestly lower since April. During the quarter, we trimmed and sold several of our global cyclical longs that have appreciated over the last 6 to 12 months.

S2 08:31 Moving to slide 10. The table on the upper left shows the improvement in retail sales, excluding gas and auto. Acceleration in retail sales growth led to a surge in nearly all consumer-related stocks. However, we are skeptical the consumer spending environment will remain as robust in the second half of the year. As you can see from the table on the upper right, real personal income growth has not accelerated despite wage growth, because of rising inflationary pressures. In our view, it appears the improvement in retail sales has been driven by a surge in revolving consumer credit due to consumers' optimism about the economy and job environment. Looking forward, as you can see from the tables on the bottom of the slide, both inflation, credit card costs, and gasoline prices appear to be a growing headwind for the consumer. We have several shorts in the apparel and restaurant space, along with shorts in names tied to higher interest rates.

S2 09:27 Turning to slide 11. Fundamentals remain strong, based on our conversations with companies during the quarter. It appears second-quarter earnings are expected to equally as strong as first-quarter. In our view, the market is beginning to focus on sales and earnings growth later in 2018 and into 2019. Once the impact of fiscal stimulus starts to fade and interest rate costs rise, the potential impact of tariffs becomes visible. Given the fundamental backdrop looking forward into late 2018, we have continued to increase our long exposure in more idiosyncratic ideas that are less tied to changes in global growth.

S2 10:04 Moving to slide 12. Here, we are going to discuss current market observations. We believe the market is at an important juncture as we enter the second half of 2018 and 2019 as the market begins to price in less accommodative overall liquidity and financial conditions. As all of you know, quantitative easing is gradually turning into quantitative tightening across the world, as shown in the table at the upper left. We are beginning to see the first signs of tighter financial conditions, as witnessed by indicators such as the Goldman Sachs Financial Conditions Index, which began to moderately tighten in January of 2018, after being extremely favorable since November 2016. After recently attending a luncheon with the former Fed chairman Janet Yellen, our base case is for a continued potential step up and tighter financial conditions into year-end and next year. As you can see from the tables on the bottom, one of the largest unknowns is how markets and economies will be impacted by rising rates and a potential for tighter financial conditions, in the wake of the unprecedented surge in debt both in the US, but also globally, and especially in emerging markets. Considering this backdrop, we have gradually shifted exposure to more defensive-oriented longs and added put exposure in our highest conviction shorts.

S2 11:26 Turning to slide 13. Additional signals of change in the environment are evident, with the increase in investment credit corporate bond spreads since January, as shown in the table on the upper left. Another notable change in market dynamics is shown in the table on the upper right. The table shows cyclical stock performance relative to defensive stocks, indexed to 100. When the lines are moving higher, cyclicals are outperforming more defensive stocks, as was the case since the first quarter of 2016. However, this trend has started to moderately change, driven by trade war concerns, slowing global growth potential, and less favorable liquidity conditions relative to the past year. The change of market leadership is also shown in the table on the bottom left. Here you can see the S&P 500 and NASDAQ have experienced gains over the last several months. However, global bank stocks, typically a leading economic indicator, have diverged from the overall market. However, we would note bank stocks have been acting much better since earnings. Something to monitor closely. Lastly, the table on the bottom right highlights the forward 12-month S&P performance following consecutive days without a 65-day high for over 30% of the S&P 500. The point of the table is to simply show the majority of stocks in the market are not trading above their 65-day highs and, if this continues to occur into August, forward S&P returns typically come under some pressure, based off historical data. With that, I'm going to turn it over to Mike.

Thanks, Tyler. Please turn to slide 14. On this slide, we show our gross and net exposures for the fund since inception. The left chart shows our gross Delta exposure which was approximately 165% at quarter end, which is up slightly from 164% at the end of the first quarter. The table on the right shows our gross long and gross short exposures, Delta adjusted, since we launched. At June 30th, we had about 84% gross long exposure and approximately 81% gross Delta short exposure. Our net exposure on a Delta-adjusted basis was 3% net long.

S3 13:35 Please turn to slide 15. On the top portion of this slide we've listed our current long investment themes and, on the bottom half, we show our current short investment themes. As long-term investors, it's typical to see themes remain in the book for multiple quarters or even years. Names highlighted in red have been added to the book since our last webcast. Within financials, we've shifted away from large-cap global banks during the first half of 2018. Our current financial exposure on the long side is in regional banks that have strong deposit footprints and attractive geographic areas. We initiated a new position in Ameris Bancorp. It is presently at 2-and-a-half percent long position. Ameris is an $11 billion asset bank with a footprint that spans throughout Georgia and northeast Florida, with its biggest MSAs including Atlanta and Jacksonville. We are impressed with Ameris' ability to execute value enhancing acquisitions over the last several years. We also think Ameris' valuation is attractive as it trades for 15 times, 2018, and 12 times, 2019 projected earnings.

S3 14:44 Next, we have initiated positions in two new names within our hard assets theme. We recently met with several management teams within the agriculture space at an industry conference in Boston. We came away impressed with the prospects for both Archer Daniels Midland and Nutrien. Archer Daniels Midland is a global agribusiness and ingredients companies that merchandises and processes a variety of crops with a heavy focus on corn and oil seeds. We are impressed with both the portfolio of agriculture assets and the potential growth profile of Archer Daniels' ingredients and nutrition business. We note that Archer Daniel stock is below where it was in 2015. We think the stock is very attractive at just 13 times, 2019 earnings with a steady dividend of close to 3%. Archer Daniels is just over a 2% position today.

S3 15:37 Next, we added a position in Nutrien. It's currently roughly 2% of capital. Nutrien was created through the merger of Potash and Agrium. The merger has created the world's largest provider of crop nutrients, which play a vital role for growers in the food chain. Nutrien maintains the leading position in both retail distribution and crop nutrient production. We believe Nutrient is poised to benefit from any improvement in fertilizer pricing. We also think that Nutrien has a number of company-specific actions in place that could drive shareholder value, which include monetizing nonstrategic equity joint ventures, and delivering 500 million in planned merger synergies, as well as share buybacks.

S3 16:21 Within the demographic changes theme, we remain long Calavo, Thermo Fisher, Abbott, and Zimmer Biomet. We also continue to be long several special situations ideas. Notably, KLX announced that they have agreed to sell their aerospace group to Boeing for $63 per share in cash. The deal is expected to close by the end of September. KLX will also be spinning off its energy services business and capitalizing it with $50 million in net cash. We continue to hold KLX as we think the spin is undervalued, as it will be trading for roughly three-and-a-half times EBITDA, based on our projections of $100 million in EBITDA for 2019. We continue to hold positions in eTrade, Ashland, CDK, and Dow Dupont, all of which are pursuing strategic reviews of their businesses.

S3 17:09 On the bottom portion of the slide, we highlight the current short themes. I will spend some time updating our current thinking of several of the individual names within these themes later in the presentation. Within the interest rate risk theme, we've covered all of our RV-related short exposure. We continue to be short Snap-on, Polaris, and Ellie Mae. Within retail, notably, consumer discretionary stocks re rated substantially higher from May through the end of June. We've taken advantage of the large gap in market prices by adding new shorts in names like Urban, American Eagle, and Ralph Lauren. I will go into greater detail on Urban and American Eagle later in the day.

S3 17:48 Next, we continue to have short positions in semiconductor names and smartphone exposure. We covered a small portion of Broadcom after the company announced its acquisition of CA. We continue to have a short position in Skyworks. During the quarter, we added both a common stock short and a put position in Intel. We will note that in its most recently reported quarter, Intel's inventories were at a record high. In our opinion, Intel has been a beneficiary of data center spending, which we think is set this slow in the second half of the year. We also think competitive threats from the likes of AMD could take share from Intel. Next, profitless growth continues to be a theme. The names in this bucket have shown significant revenue growth, but can't seem to generate any profits. Tesla, Shopify, and Wayfair fall into this bucket. I'll talk about these names in a later slide.

S3 18:38 Please turn to slide 16. Here we sum up the most notable changes in the book during the quarter. On the top left, you can see new long exposure across some of the names within hard assets, which I just mentioned. Notably, we eliminated United Technologies, Nucor, Rio Tinto, Goldman Sachs, and Bank of America. As I mentioned, we added new positions in Archer Daniels and Nutrien. And, finally, we added to our position in Mondelez within consumer staples. On the right, we show the most significant changes in the short book. We covered profitable shorts in Symantec, Middleby, Thor, Skechers, Sprouts, Teradyne, and LCI Industries. New shorts in the restaurant space include BJ's Restaurant and Dine Brands. Finally, as Tyler mentioned earlier, we covered the common stock exposure in several momentum names like Shopify, Canada Goose, and Planet Fitness. We continue to have put exposure in each of the names.

S3 19:37 Turn to slide 17. Here, we show the composition of our invested capital in both the long side and also the short side. As you can see, the special situation theme represents the largest portion of invested capital on the long side of 29%. On the right side we show our short teams. Notably, our short book is primarily concentrated in other which are really idiosyncratic ideas that are not related. Turn to slide 18. On the table on the left, we show the largest contributors to the S&P 500 year to date through the end of June. What's interesting to us is that the S&P 500 would be down year-to-date without the contributions from these names. The only name on this list that Otter Creek has owned this year is Microsoft. Despite having only minimal exposure to large cap momentum securities, our overall long book has generated a positive return and outperformed the market. In the right table we show our long portfolio fully invested since our launch. We are the blue line, and the red line is the S&P 500. During 2018 our long portfolio has generated approximately 100 basis points of excess return relative to the market as defined by the S&P 500.

S3 20:56 Turn to slide 19. While our long book has performed, overall, better than the market, we've had a few individual long names lag year to date. On this slide, we update our current views on each lagger to the book. Aramark is down roughly 10% year-to-date. We continue to find Aramark attractive as the company has had several new business wins, has executed on its margin expansion goals, and could potentially unlock value, via spin-off, of its uniform business. Aramark presently trades for 10 times EBITDA, which is almost 4 times lower than its closest peer. While the stock has underperformed year-to-date, we continue to like the name and feel the stock will rerate higher as the company continues to execute.

S3 21:40 Next, Leidos is currently one of our largest long positions representing over 6% of total capital.

Leidos is a $9.6 billion market cap government IT services company that provides technology and engineering services and solutions in the defense, intelligence, civil, and health markets. We recently visited with several government IT services providers at an industry conference, and our views on Leidos has not changed. We think there will be significant upside in the stock as the company has several potential contract awards upcoming. As the largest defense service provider in the US, Leidos has scale advantage and directly benefits from increased government spending. We expect Leidos to generate mid-single digit topline growth, and double-digit earnings growth, as there are ample margin enhancement opportunities remaining post its merger with Lockheed Martin's Defense Services division. Leidos' trades at roughly 14 times earnings, which is a significant discount to its peers. It has excellent free cash flow generation, which management plans to steer towards shared buybacks and dividend increases. It currently maintains a 2% yield.

S3 22:50 Next, CDK is an $8.7 billion market cap company that provides information technology, software and digital marketing solutions to the automotive retail industry. It is presently at 5% position. The company was spun-off from ADP in 2015. CDK has a leading market share of over 40%, operates in a consolidated industry, and has a highly sticky long-term returning revenue model. CDK is undergoing a transformation plan that is expected to improve margins over the next several years. We continue to believe CDK would be better served undergoing its business transformation as a private company. We also think activist involvement from Elliot Management will hold management accountable for maximizing shareholder value via further margin enhancements as a public entity or a sale of the business.

S3 23:40 Zimmer Biomet is presently at 4% position. Zimmer is a $23 billion medical device company with a focus on orthopedic, dental, spinal, and trauma products. The company is highly profitable with gross margins of 70% and EBITDA margins of 34%. We think the company's supply issues, which have reduced recent sales growth in the near term, are temporary. The company has brought on a highly qualified new CEO, Brian Hansen, which we believe will be a positive change agent. We are attracted by Zimmer's valuation of just 14 times, relative to its peers trade closer to 20 times. We think that, as the company works out its supply issues, the stock will rerate substantially higher.

S3 24:26 Turn to slide 20. We've initiated a new short position in Dine Brands. Dine is the owner of Applebee's and the IHOP restaurant franchises. There are presently roughly 1,900 Applebee's restaurants and 1,800 IHOPs. We view Dine as a levered owner of restaurant brands in the sectorly challenged casual dining sector. In our opinion, there's an overcapacity of the units in casual dining. We recently spoke to an Applebee's franchisee who complained that Applebee's recent promotions such as the $1 Long Island Iced Tea may have driven top line sales profit in the near term, but it's cost the franchisee significant money. We note that the Applebee's second largest franchisee filed for bankruptcy in May. As shown in the below tables, we think there is material risk to the stock as EBITDA has been declining and leverage is now over 7 times. We are short the common stock and own at-the-money and out-of-the-money puts. We would note that we've added short to BJ's restaurant, also an operator in the casual dining sector. BJ's stock is up over 70% year-to-date and has doubled within the last year. It presently trades at over 30 times earnings. I recently attended the Jeffrey's Consumer Conference and met with several restaurant operators. Every operator I spoke with mentioned margin headwinds due to labor pressure. We think BJ's is not immune. Interestingly, we have seen very high levels of insider selling at BJ's. We have common stock short and puts.

S3 26:01 Please turn to slide 21. We initiated a short position in Adtalem. Adtalem, formerly known as DeVry, is a for-profit education provider that offers bachelors and masters degrees across a variety of education programs with a heavy emphasis in medical and healthcare. As some of our investors know, Otter Creek has been short for-profit education names off and on for the last 10 years. We think Adtalem is a very interesting short at today's level as the stock has rerated significantly higher and is up almost 50% in the last year. As shown in the bottom right, we show that a significant portion of the company's operating profits are generated through their medical and healthcare programs, which are primarily online bachelor's and master's nursing degrees through their Chamberlain program. In the bottom left table, we show the cost of a Chamberlain online degree relative to other private nonprofit and for-profit institutions. In our opinion, Chamberlain is overpriced relative to higher quality, more reputable institutions. In the top right table, we show that starts in the Chamberlain nursing program have decelerated significantly. We think the trend will continue to deteriorate and there is significant downside in the stock. We have common stock short exposure and a long puts.

S3 27:24 Turn to slide 22. On this slide, we highlight a short exposure in the apparel space, with the biggest position being Urban Outfitters. We're also short via put exposure American Eagle and Abercrombie & Fitch. Urban is a specialty retailer that offers a variety of lifestyle merchandise targeting young adults in college and just out of college. We view apparel retail as a structurally challenged and extremely competitive industry. Apparel companies typically have very volatile sales patterns, as styles go in and out of favor. In the bottom right table, we show the same store sales history of Urban over the last three years. We are skeptical that Urban's recent same store sales growth, which has driven the stock materially higher, is sustainable. Notably they have just lapped very easy comparisons. The stock has rerated substantially higher, and the now trades close to 20 times, versus its historical multiple of 14 times. We have short exposure and our long puts.

S3 28:26 Turn to slide 23. We continue to have short exposure in Wayfair, Shopify, Netflix and Tesla, with the majority of the exposure through put options. I would note that we did sell the majority of our Netflix put option yesterday after the company reported. It is clear to us that momentum related securities have seen significant inflows. On the top right, we highlight the momentum factor ETF flows, which has spiked from under $2 billion to well over $10 billion in the last two years. In the bottom tables, we show the cumulative sales growth and the lack of earnings power of these particular securities. While we sold our Netflix put, we have short exposure via puts in Wayfair and Shopify. We do have a 1% common stock short in Tesla, and a series of out of the money puts as well.

S3 29:25 Turn to slide 24. On this table you can see our sector growth exposures as of June 30th. The dark bars on top show the long sector exposures and the light bars on the bottom show short exposures. The diamonds show the net exposure per sector. As you can see our heaviest gross exposure weightings are in information technology and financial. We ended the quarter approximately 4% net short information technology and we're roughly 6% net short financial. The next largest sector growth exposures were in consumer discretionary, industrials, and materials. Turn to slide 25. On this slide, we show the average weight of the market cap for the long portfolio versus the short portfolio. As you can see, the average market cap of both the long and short portfolios are roughly in the $40 to $50 billion dollar range. Our longs maintain a weighted average PE of 15 times versus 32 times on the short side. The bottom tables show our top 10 positions as a percent of net assets at the end of the second quarter versus the end of the first quarter.

S3 30:32 Turn to the next slide, 26. On one of the initial slides, we included that one of the goals of the fund's strategy was to attempt to achieve capital preservation during periods of dislocation. On this slide, we show S&P 500 drawdowns of 3% or more since inception and the performance of Otter Creek during those drawdowns. We would note that the second quarter did experience a drawdown of just over 3% in June. Finally, as we progress through earning season, we are hopeful we have positive catalysts in our names. In July, we've had four of our companies report - BlackRock, Bank of the Ozarks, Netflix and Avago - all of which reported numbers in line with our thesis. The next several weeks will be very busy as we review numerous company reports. With that, let's turn to Q&A.

S1 31:28 Great. Thank you so much, the two of you, for your comments this afternoon. And we'll now move to the Q&A session. A friendly reminder for the audience if you have a question, please feel free to submit it in the question's chat box on the bottom of your control panel. Or feel free to submit it to trogers@dakotafunds.com. First questions here, during the quarter, several of your largest shorts worked. Do you have to fund lost money on the short side? Can you discuss this a little further.

S2 31:56 So, this is Tyler. Listen, I think on the positive side if you were to look at the fund over the last year or so, I'd say the slugging percentage of our highest conviction shorts has been very good. Whether that's Symantec, Middleby, or Winnebago, there's been a lot of really big winners for our larger names. I think we may be early but unfortunately there were a lot of positions between numbers 20 to 35 let's call it, that were 1%, 1-and-a-half percent probably at the top end of that, where we think the growth profile is going to slow fairly materially relative to the higher growth rates that some of these companies have had; or, number two, we just think that the businesses in themselves are just completely uneconomic. An example with that would be a name like Wayfair, which we kind of backed into a modest short during the May timeframe. Ultimately, from our standpoint, given where some of these stocks have gone both on the names we like and some of the names that have definitely hurt a little bit in 2Q, the names that we have the highest conviction on and the names where we think they're more probably catalyst-driven in the near-term - all those names Mike talked about – we have continued to increase our exposure there, both through the put side but also the common stock short side.

S2 33:23 A few names have clearly been a bit of a challenge. I'd say a lot of them have a little bit more of that higher growth profile, and in this environment where we've just seen a lot of liquidity chasing momentum, we back away. Now, that doesn't mean we back away entirely. What that means is, in most of those positions, whether it's the Wayfairs, the Shopifies, or Planet Fitness those type of names, we've covered the common stock but we have bought medium-dated puts in all of those names. Typically, those puts are November to December time period. And really the thought process there is, one, if this market environment continues where these names lead, we'll be out roughly 10 basis points for all of those names, as the puts are about 10 basis points for each name. But if we're right and we were just maybe a little bit early on some of these names, we're still going to have the exposure where we think we could do really well.

S1 34:20 Great. Thank you. Tyler. Next question here. Clearly, the Semi and RV themes worked. What data points give you conviction that the same will happen in apparel and the restaurant space?

S2 34:34 Yeah, it's a good question. So, yeah, I guess, going back overall, we felt pretty good about where we put a lot of largest amounts of capital for the last six months or so. When you look at areas that intrigue us right now, we kind of tie that back to the Semi and RV theme. Areas that typically would intrigue us or what we would view as cyclical industries, cyclical businesses, and average to below average businesses. And if you've got to go back over time - and in fairness we were probably a little early on the Semi theme - I think with the RV theme we sized it really well, and timing was pretty good on that one as well. We shorted, those industries that were benefiting from really robust demand, kind of peak operating results, and the consensus was that it would continue into the future. And we just took a different view from that, at the end of the day, these are still cyclical businesses that are riding high on some cyclical near-term tailwinds, but that wasn't going to be sustainable. RVs clearly worked, and even the Semi names have obviously worked as well, whether that's a Fargo or Teradyne, even though there's probably a little bit more downside on some of those names within that theme. Fast forwarding to apparel and the restaurant space. While the space has certainly been challenging in the four to five weeks, given where money has gone, specifically within the SMID cap space we continue to have faith in our conviction.

S2 35:54 In our view not all boats deserve to rise with the tide in this case. And there's a lot of companies, whether that's within apparel or the restaurant space that Mike's highlighted, that we think in the the medium and long term, economics of those businesses, nothing's changed despite the fact that these names are up 40, 50 percent in a span of 6 to 9 months. When we look at the timing, we look at the back half of the year, we look at the consumer environment, we look at the amount of insider selling happening, and then we look at what analyst are forecasting in their models for the stability on this growth, and we just think that people are overly optimistic. So that's how we're thinking about it.

S1 36:41 Thanks so much, Tyler, and next question here, looking ahead over the next 6 to 12 months, what are your biggest concerns and risks that you see in the book?

S3 36:50 Sure. I guess I'll take that one. I guess the real risk is we have a continuation of this environment where growth and momentum securities just vastly outperform value. I mean, we tend to be-- we're not deep value guys, but we tend to be value-oriented when we're looking for longs and clearly that’s not really working in the marketplace more recently, the revenue growth factor with no real care for profit growth seems to be an investor favorite. So I think when you think about what could potentially be harmful or risky to our book, is we're typically never going to be long, the high growth entity with no earnings. And if those are the securities that lead the mark in the next 6 to 12 months, that could potentially be a headwind for us.

S1 37:46 Great. Thanks so much, Mike. And that does conclude the Q&A session for today, and I'm just going to turn it back over to the two of you for any closing remarks.

S2 37:55 Thanks again for joining the call. We'll be around so if anyone wants additional follow-up, feel free to reach out.

S1 38:03 Thank you again, Tyler and Mike, for your time this afternoon. And thank you to our audience for your participation. I will now read through some required disclosures. Mutual Fund investing involves risk, principal loss is possible. The fund may use certain types of investment derivative. Derivatives involve risks different from and in certain cases greater than the risk presented by more traditional investments. Derivatives may involve certain costs and risks which could be interest rate, market, credit, management and the risk that a position could be not closed when most adventitious. Investing in derivatives could lose more than the amount invested. Performance that I quoted is past performance, past performance is not guaranteed future results. The investment and principal value of an investment will fluctuate, so that an investor's shares when regained may be worth more or less than their original cost. The current performance can be lower or higher than the performance that I quoted. Performance data current to most recent month end may be obtained by calling 855-681-5261. Performance that I quoted does not reflect the 1% redemption fee on shares held for less than 60 days. If reflected, total returns would be reduced. The Otter Creek Long/Short Opportunity Fund is distributed by Quasar Distributors, LLC. The conference is now concluded and you may now disconnect.