Otter Creek Long-Short Opportunity Fund Q4 2017 Webinar Transcript

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Transcription:

S1 00:05 Good afternoon and welcome to the Otter Creek Advisors Q4 2017 conference call and webinar. All participants will be on listen-only mode. After today's presentation, there will be an opportunity to ask questions. If you are at your computer, please submit your questions in the questions chat box, 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 00:39 Great. Thanks, Tracy. This is Tyler Walling speaking. We are going to begin today's call by providing a brief overview of our firm and strategy. We will then discuss fourth quarter performance. Next, we will discuss our investment process, give you our latest views on the macro environment and frame market valuations. We'll then discuss investment themes in the portfolio, new ideas, and the composition of the portfolio.

S2 00:58 So let's start with slide two. Otter Creek Advisors is a fundamentally focused, value oriented, alternative fund manager. We have managed a strategy in the 1940 Act Mutual Fund construct since December 2013. The firm is 100% employee owned. As of February 6th, the Otter Creek Long/Short Opportunity Fund manages 243 million in assets. Otter Creek Advisors also manages a $95 million separate account that is run similar to the Otter Creek Long/Short Opportunity Fund.

S2 01:26 Turn to slide three. The goal of our Long/Short Mutual Fund is to generate absolute risk-adjusted returns with below average volatility. Historically, we have experienced low correlation and less than half of the volatility to the S&P 500.

S2 01:41 Moving to slide four. Here you can see attribution, both long and short, for the fourth quarter of 2017. For the fourth quarter, the fund was down 60 basis points versus the S&P 500, up 6%. Our longs added 6%, while running a mid-teen cash balance, shorts detracted 6% inclusive of puts. We will go into greater detail and attribution over the next few slides.

S2 02:06 Turning to slide five. Our longs in industrials, technology and financials were the largest contributors to performance in the quarter, adding almost 400 basis points in aggregate. Our largest detractors were shorts in financials, which detracted 190 basis points. Followed by consumer shorts, which detracted 170 basis points. We have reduced our financials and consumer discretionary exposure. As you can see, our short exposure to consumer discretionary proved to be very difficult during the quarter. And although we reduced some exposure as the new tax law began to take shape, several of our names re-rated higher as capital quickly flowed into the group, indiscriminately, via ETFs. The names we are short are not broad-based and are not a bet against the consumer; they're all idiosyncratic in nature.

S2 02:56 Now let's turn to slide six to discuss the individual underliers that impacted performance. Turning to the table on the left, our largest contributors to performance in the quarter were mostly longs. KLXI increased after the company announced it hired Goldman Sachs to assist in conducting a strategic review of the business after several interested parties reached out to KLXI about a potential takeout. We continue to hold a position because of the possibility the company will ultimately be sold. Snyders-Lance, which we have owned since the inception of the fund, increased after Campbell Soup announced they would acquire Snyders for $50 per share. We sold our position after the news. FLIR and Calavo increased on the back of strong earnings and a rising market. We trimmed our position in Calavo to 2% of capital. Newell Brands declined 27% in the quarter after disappointing earnings results. We covered our short and sold our puts in the quarter.

S2 03:54 Turning to the table on the right, the largest detractors were mostly shorts. Burlington and Winnebago increased on the back of large inflows into retail ETFs during the month of December, as investors became excited over tax reform benefiting consumers and domestic companies with high tax rates. We reduced our position in many consumer shorts including Burlington before tax reform was announced, but we still do remain short Burlington and Winnebago. I would add Winnebago was one of our largest winners in January. SVB Financial increased driven by better than expected earnings and higher interest rates. We reduced our short position. Proto Labs increased as investors speculated that the company would be a beneficiary of accelerated depreciation rules under the new tax law. We covered our short. Treehouse Foods declined after weak unexpected earnings. We sold our position, as fundamental headwinds appear likely to persist longer than we expected.

S2 04:51 Let's move to slide seven. 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. It is 30-35 longs and 30-35 shorts. In addition, we will express a portion of our short exposure in individual names via put options. Typically, two to three percent of capital is in puts. This serves a two-fold purpose. One, as a risk management tool, as we know the amount of capital at risk. And two, it allows us to leverage our best ideas. We view ourselves as bottoms-up stock pickers to 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, expect the portfolio will experience tracking error, relative to the indices, which leads to low correlation of our return stream.

S2 05:48 Moving to slide eight. As we turn to the macro slides here, discussing market conditions, clearly things have changed a bit in a hurry since we put together the deck 10 days ago for compliance purposes. Here are a few charts summing up 2017. Twelve straight months of up markets, unprecedented surge in ETF inflows, significant outperformance of growth stocks relative to value stocks, as shown in the table on the bottom left. Growth stocks outperformed value stocks by about 16%, which has been a large headwind for us, considering we are primarily long value-oriented stocks. The market went up for over a year without a 5% drawdown. Obviously, that changed over the past week.

S2 06:34 Turning to slide nine. 2017 can be characterized as a year of synchronized growth around the world. And based on current indicators, it appears 2018 could be another year where all major economies across the globe experience positive growth as shown in global manufacturing and service PMI readings, as shown in the upper right. The bottom left highlights the ongoing recovery in Europe, which appears sustainable in the near term and the bottom right shows the acceleration in emerging market economies after a multi-year slowdown, 2015 and '16.

S2 07:09 Moving to slide 10, market fundamentals appear favorable with double-digit earnings growth, as shown on the table on the upper left. However, this backdrop is against valuations that are now in the 90th percentile across nearly all traditional valuation metrics, such as price to sales, price to earnings and market cap to GMP. In light of elevated valuations, we have continued to shift our long portfolio into liquid long securities, carrying lower and relative valuations.

S2 07:40 Turn to slide 11, market sentiment remains high as witnessed by the majority of sentiment indicators. In addition, as shown in the table on the upper right, cash balances are near decade lows for many investors, including mutual funds. Turning to the table on the bottom left, 2018 will mark an era where global quantitative easing will slow across the world. As shown in the table, the aggregate expansion of Central Bank balance sheets will turn negative in 2018, a significant change from the last several years. We continue to believe this will lead to a heightened volatility environment going forward, which should be conducive to the strategy. Lastly, the table on the bottom right shows global break-even rates, which show a gradual rise in inflation break-even rates as the global economy experiences synchronized growth in the near term. We have modestly shifted our long exposure into names that benefit from higher rates and inflation. And conversely, increased our short exposure in names that have benefited from ultra-low interest rates and unusually low inflation.

S2 08:49 Moving to slide 12. Other market observations include the weakness in the US dollar despite multiple Fed rate hikes and an improvement in US GDP. We believe the weakness can be partially explained by better than expected growth from Europe and emerging markets. A weaker dollar should be positive for US industrials that export products, and multinationals that will benefit from foreign currency translation. Both of which, we are long. The table on the upper right highlights commodities price performance relative to equities over the past 50 years. As you can see, commodities are near all-time lows relative to the broader equity market. We have allocated slightly under 5% of capital to high-quality commodity stocks.

S2 09:39 The table on the bottom left shows another notable change occurring in 2018 as it relates the amount of treasuries set to be issued on a net basis. As the Fed gradually winds down its balance sheet, at the same time that deficits increase, the amount of borrowings is set to increase meaningfully going forward which could put upward pressure on US rates. As supply increases at the same time foreign demand for treasuries has slowed. Lastly, the table on the bottom right highlights the magnitude of an interest rate shock would have on fixed income investments. Given the rapid rise in debt across the US, even a modest interest rate increase could have magnified impact on fixed income values and aggregate. We currently have limited fixed income in our portfolio. And with that, I'm going to turn this over to Mike.

S3 10:28 Thanks, Tyler. Please turn to slide 13. 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 161% at year-end, which is up slightly from 156% at the end of the third quarter. The table on the right shows our gross long and gross short exposures delta-adjusted since we launched. At December 31st, we had about 87% gross long exposure, and approximately 74% gross delta short exposure. Our net exposure on a delta-adjusted basis was 12.4% net long.

S3 11:05 Please turn to slide 14. On the top portion of the slide, we've listed our current long investment themes, and on the bottom, we show our current short invested themes. As long-term investors, it's typical to see themes remain in the book for multiple quarters or even years. The names highlighted in red have been added to the books since our last webcast. Since our last webcast, we've added multiple new names both long and short. Notably, we've added meaningful new long exposure to names in the financial deregulation theme and also in large-cap value. We'll highlight these names later in the presentation.

S3 11:38 Within special situations, we added CDK, Jack in the Box, and Pinnacle Foods. We will note that the special situation theme is where a large amount of our recent capital has been allocated. We are of the belief that many companies will be engaging in M&A now that there's visibility on tax policy. Also, as money is repatriated, we think that will drive potential M&A as cash-rich companies will look to deploy their new onshore capital. We view KLX, E*TRADE, Ashland, CDK, and Pinnacle Foods as potential takeout candidates. We are also focusing on companies that will have potential to break themselves up through divestitures and spin-offs. DowDupont will be breaking itself into multiple companies later this year. We anticipate the remaining companies will re-rate higher as independent. Next, Jack in the Box just announced they will be selling its Qdoba franchise, leaving it as a pure play, burger-focused QSR. We think Jack could ultimately be attractive as a takeout candidate after the sale of Qdoba is complete.

S3 12:37 On the bottom portion of the slide, we highlight current short themes. We'll spend several minutes updating our current thinking of several of the names within these themes. One clear takeaway over this earnings season, in our view, has been the number of companies that have been citing input cost inflation. What is becoming clear is that input cost inflation in things such as labor, steel, aluminum, copper, and various other commodities, could result in material margin compression going forward. Names like Snap-On, Winnebago, and LCI Industries, all could see margin compression. We continue to have short exposure across select retail names. Planet Fitness is a notable new short. We think the fitness category has become very saturated and competitive. We note that the number of US health clubs has increased by over 20% since 2011. We think there's too much supply from studios and traditional gyms. We just met with Planet Fitness at an investment conference a few weeks ago. We find it a compelling short, as we believe underlying fundamentals of its franchisees are not currently reflected in the parent company financials. Also, insiders have been heavily selling the stock while competition intensifies.

S3 13:47 Next, we continue to be short several semi names that are trading near peak stock prices on peak earnings. The names we are short have exposure to the saturated smartphone market, which we believe is set to experience no growth, post the iPhone 8 and 10 launches. We think our short names have significant downside as sales and earnings are set to disappoint elevated expectations over the coming quarters. Finally, profitless growth is this theme on the short side. I will go into greater detail on this theme on a later slide.

S3 14:17 Please turn to slide 15. Here, we sum up the notable changes in the book during the fourth quarter. On the top left, you can see new long exposure across several names. Again, I will highlight our thinking in many of these names on a later slide. Notably, we trimmed positions in Seacoast and Calavo. Next, we exited positions in Treehouse, Snyders-Lance, FNB, Colony NorthStar, and just recently, we exited PayPal. We exited these names as we rotate it into what we deem are better ideas. Primarily, names that have more attractive valuations and better risk reward.

S3 14:50 On the short side of the book, we covered multiple short positions. We took some profits in Newell Brands as the stock declined. We continue to have a small short position. Next, we covered profitable short positions in Davita and Dexcom. We covered short positions in Middleby, Texas Roadhouse, and Strayer at a modest loss. We moved on from these names as they are clearly tax cut beneficiaries. Finally, we added shorts in Winnebago, Iron Mountain, Post, and Ellie Mae. Iron Mountain is a REIT focused primarily on document storage. We view Iron Mountain as a secularly challenged business as demand for document storage is in decline. Interestingly, Iron Mountain has levered itself up, acquiring data centers over the last two years. We view that as a risky proposition, their buying data centers and near peak valuations. We think these actions are proof that management is aware that they are in a declining category and are looking to diversify.

S3 15:47 Next, we have Post as a levered roll-up of secularly declining cereal assets. The company just reported results that disappointed investors. We covered a small amount on the news, but maintained a short position. Again, we will review our thinking on Winnebago later in the presentation. Finally, we've re-initiated Ellie Mae as a short. Ellie was one of our more profitable shorts in 2017. We think it is interesting it's a short again after its rally into year-end as the short thesis has not changed.

S3 16:15 Please turn to slide 16. Here we show the composition of our invested capital on both the long side of the portfolio and also the short side. As you can see, the special situation theme represents the largest portion of invested capital at 22%. Next, we have 19% of the book, in the names we've classified as large-cap value. Next, the America First theme, this theme comprises exposure across multiple sectors, including the financial, industrial, and transportation sectors. Not every name in the book is necessarily theme related. As you can see, we have individual names we've favored and we have bracketed those idiosyncratic or compounders-type ideas. Names that fit these buckets include NextEra Energy Partners and Aramark. They meet our criteria, they are market leaders have strong balance sheets and a competitive mode.

S3 17:05 On the right, we show our short themes. Idiosyncratic ideas are bucketed in the other category and represent the largest portion of invested capital. Names like Iron Mountain and Ellie Mae fall under this bucket. Peak semis and retail are presently our largest short-related themes.

S3 17:23 Let's turn to slide 17. Here, we lay out our thinking behind our net long exposure within the financial sector, which is primarily based on our belief the financial sector is one of the biggest beneficiaries of deregulation. First, on the top left, we show the performance of financials and banks relative to the S&P 500 over the last decade. As you can see, banks and financials have been material underperformers. We think excessive regulation and low interest rates have penalized financials since the crisis. On the top right, we showed that sentiment for banks remains low among the sell side analyst community. On the bottom left, we show the potential positive implications, the earnings of large-cap banks as various regulatory changes occur and some large-cap bank earnings could see a 15 to 16 percent earnings benefit if rules such as CCAR, the Volcker Rule, and others are eliminated or weakened. In the bottom right table, we show that expectations seem low relative to our EPS expectations post deregulation.

S3 18:25 Please turn to slide 18. On this slide, we show the individual names within the financial deregulation theme where we have long exposure. On the table on the right, we can see the valuation multiples proforma, which is the blue bar, assuming deregulation benefits. The takeaway here is we show the high-level thoughts on why we are long, and also how impactful deregulation will be to earnings. We see material upside in each one of these names. New names include Bank of America, Bank of New York, and Goldman Sachs. Bank of America, we view similarity to Citigroup, as it has a sizable opportunity to reduce its expense base, which should drive operating leverage and increase earnings power. Bank on New York recently installed a new CEO, Charlie Scharf, who came from Visa. We're impressed by his background, and think he could prove to be a positive change agent. Finally, Goldman Sachs should benefit from deregulation, which could help boost trading revenues. Goldman should also see a meaningful impact from increased M&A activity.

S3 19:29 Let's turn to slide 19. Presently, we are finding multiple long opportunities that we consider large-cap value. In the top left, we showed that large-cap value has significantly underperformed large-cap growth during 2017, and that continued in January of 2018. On the table in the top right, we show that the valuation of the Russell 1000 Value index appears cheap on both the relative and absolute basis. In the bottom left table, we show that the Russell 1000 index maintains a relatively high yield of roughly two and a half percent. Finally, on the bottom right, we show that value tends to outperform growth during solid periods of EPS growth. We think the overall backdrop for large-cap value will be favorable for 2018.

S3 20:15 Please turn to slide 20. Here, we show the names that represent our large-cap value bucket. Berkshire, we've owned for a while but we think the investment case has only improved as it is one of the biggest beneficiaries of both lower tax rates and a potential capex recovery. It has almost 100 billion available for accretive M&A. Berkshire also benefits from higher interest rates through its insurance subsidiaries. Next, FedEx we think has significant tailwinds, as it is the leading logistics player that benefits from the secular trend to online commerce and trades for just 16 times forward earnings. We also think the earnings trajectory would increase in the event we see continued synchronized global growth and enhanced operating margins.

S3 21:03 United Technologies is a high quality industrial name with dominant market share position. We also view it as a beneficiary of a potential capex recovery globally. We also think it has the potential to enhance value in the event it decides to monetize non-core assets over time. Cisco Systems is a leader in communications equipment. Our investment case here is fairly simple. Cisco has a fortress balance sheet with significant cash overseas. We think it will see a tailwind from an IT spending recovery, and it'll also have ample dry powder for capital allocations or potential accretive M&A. Delta, we view as a cheap stock, trading under 10 times earnings. We find the capital allocation profile compelling, as 70% of free cash flow is being returned to shareholders via buybacks and dividends.

S3 21:52 Please turn to slide 21. One of our short themes currently in the book is what we call profitless growth. These are companies that have shown an ability to grow revenues, but profits and cash flows have remained elusive. These companies are burning cash, and they're relying on capital markets to grow. The valuations of these companies are predicated on cash flows that they hope to generate far in the future. We think these cash flows may never appear, as each is seeing increased competitive threats. We think that as capital markets get tighter via higher interest rates, the ability to fund profitless business models will become increasingly difficult. We classify Wayfair, Tesla, and Shopify in this category. We have short positions coupled with put exposure in each.

S3 22:40 Please turn to slide 22. We also think there will be interest rate risk to companies that rely on selling big-ticket items to customers that use credit. We believe the RV industry is potentially at risk, as most purchasers heavily relied on financing to buy RVs. We're short, Winnebago and LCI Industries. Both were short winners in January, and we see more downside. We view Winnebago at risk, as it primarily sells motor homes and has only minimal exposure to the fast growing towable segment. It also has been losing out to competitors, such as Thor. LCI Industries, we find to be a compelling short as well. LCI provides the components, which are primarily commodity base to the large RV manufacturers. We note that LCI reported this morning, while revenues grew materially, operating profits did not keep up. This was due to the fact that roughly half the cost of goods sold are commodity related, specifically aluminum and steel. We think the headwinds will only intensify for LCI, as RV unit growth plateaus.

S3 23:47 Let's turn to slide 23. On this table, you can see our sector exposures. As of December 31st, dark bars on the top show the long sector exposures, and the light bars on the bottom show the short exposures. The diamonds show the net exposure per sector. As you can see, our heaviest gross exposure winnings are in information technology and financial. We entered the quarter approximately 14% net short information technology and roughly 12% net long financials. The next largest sector exposures were in consumer discretionary, industrials, and consumer staples.

S3 24:20 Let's turn to slide 25. On this slide, we show the weighted average market capital long portfolio versus the short portfolio. As you can see, the average market capital long portfolio is 48 billion, and the average market capital for the short book is 33 billion. Our longs maintain a weighted average P/E of 15 times versus 23 times in the short side. On the top right table, we show our gross exposure by market cap. The bottom

tables show our top 10 positions as a percent of net assets at the end of the fourth quarter versus the end of the third quarter.

S3 24:53 Let's turn to slide 26. On one of the initial slides, we indicated that the goal of the fund strategy was to attempt to achieve capital preservation during periods of dislocation. On this slide, we show each of the S&P 500 drawdowns at 3% or more since their inception, and the performance of the Otter Creek Long/Short Opportunity Fund during those drawdowns. Today's presentation is timely as we are in the midst of experiencing a drawdown on the S&P, which has approached the high single digits. During this drawdown, we have lost a little bit of money. Admittedly, what has surprised us is that the most liquid names in the large-cap spectrum have sold off significantly more than the overall market. That's a strange phenomenon that we didn't anticipate, and we suspect it has been CTA and quantitatively driven. We have been taking advantage of the sell-off by adding to our highest-conviction, large-cap, long names like United Technology, Berkshire Hathaway, and others. At this point, that concludes the presentation. I would mention that the slide deck will be available on our website, ottercreekfunds.com at around 3:00 PM today if anyone would like a copy. At this point, let's begin the Q&A.

S1 26:07 Great. Thank you both, Tyler and Mike, for your comments this afternoon. And as a friendly reminder to our audience, should you have a question, please feel free to enter it in the questions chat box in the bottom of your webinar control panel, or you may email them to trogers@dakotafunds.com. First question here for you. Could you please review attribution since late last week? It would have seemed that with a very low net long position combined with put exposure that the portfolio should have just gone through a perfect scenario for gains.

S2 26:40 Sure. This is Tyler. I'll take a stab at that one. I'd say, first off in a nutshell, our long portfolio has performed, I'd say, in line with our expectations. To put that in perspective, our long portfolio has generated roughly 20 basis points of alpha this month as of today. The issue has currently been what I call lack of participation of our short book. Just to spend 60 seconds on framing it, I think, as many of you are aware that the sell-off really has been primarily driven by risk parity, CTA and quant funds. Initially it started Friday, and I think for the most part it is driven by economic data, specifically around wage growth accelerating up to that 3% level. That clearly impacted rates, which then led to a fairly large spike in volatility, and that volatility really did impact a lot of people selling vol short. And I think this impacted CTAs, it impacted the risk parity community, as well as those stocks and bonds blew out. Now, unfortunately, as everyone was scrambling all at once, there was a significant amount of selling large liquid ETFs, selling S&P futures to hedge against this pretty large blowout in volatility. And as we discuss several of our longs, our S&P value related names that got caught up in this de-risking cycle.

S2 28:24 But I would say, when you look at our shorts, many of them are not in the S&P or have very low exposure to the S&P, and they're really more in the mid-cap space. And we just did not get caught up in a lot of this large wave of selling, driven by the quant community. And just to kind of put that into perspective, not one of our top 10 shorts such as Snap-on, Ellie Mae, Symantec, LCI, Winnebago were down more than the market, at least on Monday, despite all these names carrying what I would characterize as fairly high betas. Now, looking forward at today, I would say kind of ironically, not all, but several of these names and these types of shorts are starting to act more in line with what we would think in regards to an uptick of volatility. I don't have or we don't really have an answer to why the possible change today. I would say, speaking with various trading desks over the last several days till this morning, it does appear that there is a little bit more active management now selling, during this kind of de-risking party. And as we talked about in the presentation, there is a very low cash balance out there. So some of these names, at least for today, we are starting to see a little bit more of these shorts acting as we would expect, especially the less liquid ones that maybe are not a component of the S&P.

S1 29:52 Great. Thank you so much, Tyler. Second question for you. What is the overall put exposure now? And have you traded the puts over the past few days? And what is your current net long exposure, delta-adjusted and dollar? Also, are you seeing the strange options pricing that we're hearing about, and has that been a factor in the decline?

S3 30:15 Well, as of this morning, we had 3% long put. And to answer your question, we have been trading around them. Absolutely. We've been taking off, the more near-dated put exposure that's gone into the money rather aggressively. We do have quite a bit of put premium that's out of the money, so in the event things did get sloppier, we hope to protect and capture potential profits in that put component if the market were to go to lower levels. What was the last part of the question? Are we seeing strange option pricing-- I will say, there were points on Monday and even a little about Friday where we went to trade options. And the people that we deal with were frozen. They were afraid to do anything. It was hard to price individual options just because the moves were so big and so uncharacteristic to most recent market activity. So yes, we have seen some definitely, some interesting dynamics surrounding trading the option component.

S1 31:34 Great. Thank you very much, Mike. And in addition to that question, can you mention or review the current net long exposure?

S3 31:43 Yes. We're approximately 16, 17 percent net long before today. I imagine, if some of the puts kicked in a little bit today, so it's maybe a couple percentage points lower at the end of the day.

S1 31:58 Great. Thank you so much. Third question here. Can you expand on your comments regarding possible inflation?

S2 32:08 Sure. I mean, listen, I think from our perspective, again, just taking a step back we are individual single stock pickers, so there's no doubt that the macro part will overlay our process, as we construct the book, sizing names, and looking at thematic ideas. And on that note, we've been to several conferences over the last two months. We have three more in front of us in the next month. Obviously, we've gone halfway through earnings. And one of the first themes that we continue to get from meeting with management teams is a lot of upward pressure on labor cost, but also input cost. This is a pretty notable change versus the last several years. I think you can obviously look to Friday's data and wage inflation really starting to pick up. I'd say, based on our conversation, this is just starting to really accelerate. I think adding tax reform onto that is only throwing gasoline on the fire, to be honest.

S2 33:09 And in addition, another thing that we're clearly hearing is, a lot of commodity-related input pressures, whether that's steel, aluminum, copper, things like that, and you are hearing a lot of companies starting to really push forward on price increases. And that is showing up in a lot of PPI data that's coming out from the government. So long story short, our view is, we're not going to make outright bold calls on inflation or rates, but I will say when we sit back and look at the landscape, we do continue to think that the majority of the investment community is underappreciating the magnitude of inflation being built up throughout the system. And that's how we're kind of, to some degree, reflecting how we're looking at longs and shorts. On the long side, really focusing on high quality names with pricing power, and on the short side, to Mike's point, really looking at names that don't have pricing power, have benefited substantially from low interest rates, and names that have really benefited substantially from what has been a very low inflationary environment over the last one to two years. And that's where we're looking for, and we're finding a lot of shorts.

S1 34:21 Thank you very much, Tyler. And another question here. Can you talk more about the short semi thesis that seems to be a consistent drag?

S2 34:32 Yeah. So I'd say big picture, that theme has definitely been wound down a little bit in the book over the last six months. It's really focused on essentially three names now. I think when we take a big picture perspective; we are big believers in capex, this kind of capex recovery that seems to be bearing fruit. That being said, if you look at most of the names that we are short, all of those names kind of already benefited from a substantial-- I'd call it once-in-a-decade capex kind of recovery last year. And the majority of this was tied to a fairly significant build in both the iPhone 8 and the iPhone 10. And when we look forward over the next, call it, two to three quarters, and when we look at these names and you look at the potential unit growth within the smartphone space in general, which actually has shown declines recently, we think expectations are still not reset to the right levels to reflect those, probably, top line weakness, but also probably the biggest thing people are missing is the deleveraging off of negative sales growth. So we look at the names it's three names right now. But I will say, when we kind of look at the models and model up the next few quarters, it just seems like you have kind of quite a few catalysts in front of you, which is why we've been reluctant to cover some of the shorts.

S1 35:54 Great. Thanks again, Tyler. And that does wrap up our Q&A session for this afternoon. I would just like to turn the call back over to the two of you for any closing remarks today.

S2 36:03 Yeah. Just thanks again for logging on. And as Mike said, the presentation will be up in, hopefully, less than an hour. So feel free to log on and grab it if you want and reach out to me, Mike, or even Gordon, if you have any follow-up question.

S1 36:19 Thanks again to Tyler and Mike for taking the time this afternoon, and 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 derivatives. Derivatives involve risks from, and in certain cases, greater than the risks found by more traditional investments. Derivatives may involve certain costs such as liquidity, interest rate, market, credit, management, and the risk that a position could not be closed in most advantageous. Investing in derivatives could lose more than the amount invested. Performance data quoted is past performance. Past performance does not guarantee future results. The investment and principal value of an investment will fluctuate so that an investor's shares when redeemed may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance data current to the most recent month end may be obtained by calling 855-681-5261. Performance data quoted did 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.