Otter Creek Long-Short Opportunity Fund Q1 2018 Webinar Transcript

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Speakers:

S1: Tracy Rogers, *Moderator*
S2: Tyler Walling, *Portfolio Manager of the Otter Creek Long/Short Opportunity Fund*
S3: Mike Winter, *Portfolio Manager of the Otter Creek Long/Short Opportunity Fund*

Transcription:

S1 00:04 Good day and welcome to the Otter Creek Advisors Q1 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 are at your computer, please use the "submit a question" chat box located on the bottom of your webinar control panel or you may submit your questions directly to trogers@dakotafunds.com. Please note that 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 00:38 Thanks, Tracy. This is Tyler Walling speaking. We're going to begin today's call by providing an overview of our firm's strategy and investment process. We will review first quarter performance. Next, we will discuss our macro and market observations. We will then highlight the investment teams' new ideas in the portfolio. Let's start with slide two. Otter Creek Advisors is a fundamentally focused value-oriented alternative fund manager. We have managed this strategy in a mutual fund construct since December 2013. The firm is 100% employee-owned. As of March 31st, 2018, the Otter Creek Long/Short Opportunity Fund managed 196 million in assets. Otter Creek Advisors also managed a $73 million separate account that is run similar to the Otter Creek Long/Short Opportunity Fund. Turning to slide three. The goal of the 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 of the S&P. Moving to slide four. Here you can see attribution, both long and short, for the first quarter of 2018. For the first quarter, the fund was down 2% versus the S&P down 1%. Our long performance was flat while our short book detracted 1.6% inclusive of puts. Year to date through April 25th, the fund is up 2% relative to the S&P 500 down 1%. We will go into greater detail on attribution over the next few slides.

S2 02:05 Turning to slide five. As you can see in this table, the first quarter experienced a fairly significant amount of volatility, both up and down. During January, on average, growth stocks outperformed value by three to four hundred basis points. Although historically a difficult scenario for the fund, especially with semiconductors, a large short of ours up significantly, we did well during the month, as two of our three largest winners were shorts. In February, investor's perceptions of the Goldilocks investment environment experienced its first test as wage inflation ticked up, forcing investors to consider the potential impact of rising wages, higher inflation, and the potential for a more hawkish Fed. Unfortunately, the violent selloff which followed the report was led by investors, specifically CTAs and quant funds, who were forced to adjust their exposure via selling liquid ETFs, significantly impacting liquid large-cap value names where we were long, while a majority of our mid-cap shorts, in addition to our semiconductor shorts, appreciated or fell much less than the market. Although, our shorts held significantly higher valuations. For perspective, during the early February market decline, defensive or safer longs, such as JNJ, depreciated almost 15% during the 10% S&P market sell-off. While the semiconductor space, and names like Wayfair, an online furniture retailer with

negative profits, appreciated daily during the dislocation. However, after reporting a disappointing earnings report mid-month, Wayfair fell roughly 20%. Wayfair was the fund's largest winner on the short side during the month. In short, the higher the Beta of the name, the better it seemed to act during the month, creating a very difficult and unusual environment for the fund. However, as you can see in March, for the first time in what seems like a lifetime, value-oriented names began to close the gap on growth as investors have begun to focus on more traditional valuation metrics as arising rates continue to force investors to adjust valuation multiples. This trend has continued into April and first quarter reporting season.

S2 04:14 Moving to side six. The largest contributor to our long performance during the quarter was information technology, which added 60 basis points. The largest detractor to performance were our shorts in the technology sector, primarily during the months of January and February, as I discussed. Fortunately, many of the shorts that detracted from performance in the first quarter have been contributors to performance over the past month, especially as we have entered earning season. Turning to side seven. The table on the left shows contributors during the quarter. Shorts were the primary contributors to performance. Our short RV theme worked well during the quarter as both Winnebago and LCI Industries were down sharply on concerns over the sustainability of the RV cycle and high inventory levels. We covered our short in Winnebago and we have sold our puts in LCI. Our short in Snap-on continues to play out. Specifically, we believe the company relied on a very aggressive credit route to drive sales growth over the last several years and this dynamic is set to reverse going forward, which could lead to large profit disappointments over the coming quarters. Tesla shares declined during the quarter over Model 3 production concerns. We traded around our put positions on weakness. We continue to hold a common stock short position, and puts, given our belief that production shortfalls will continue to disappoint and the company will most likely have to raise capital during 2018. Interestingly, Tesla bonds, which were issued at par last summer, are now trading below 90 cents on the dollar as liquidity concerns gradually grow. Kirby shares increased as more industry data points suggested a recovery in pricing for their main inland barge business.

S2 06:01 Turning to the table on the right. The largest detractors were primarily shorts. Shopify increased, primarily, during the month of January, along with the surge in the NASDAQ. We maintain a short common stock position and own a put. Ollie has increased due to favorable earnings results. We continue to question the long-term sustainability of their deep closeout business model. However, we have covered a portion of our position because the stock hit our stop loss rule. CDK depreciated during the month. Mike will discuss CDK later in the presentation. Energizer increased after the company announced they would buy Spectrum Brand battery business. Mike will discuss this short in great detail later in the presentation. Teradyne hurt us in the first quarter but is one of our larger winners during April. Moving to slide eight. For those of you who may be new to Otter Creek, I will briefly discuss our investment process. Our portfolio is relatively concentrated, especially versus our peer group, with 30 to 35 longs and 30 to 35 shorts. In addition, we will express a portion of our short exposure in individual names, vis-à-vis put options, typically representing 2 to 3% of capital. This serves as a two-fold purpose. One, as a risk management tool as we know the amount of capital at risk. And second, it allows us to leverage our best short ideas. 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 this investment process is that the portfolio will experience tracking error relative to indices, which leads to the low correlation of our return stream over time.

S2 07:45 Moving to slide nine. The market environment continues to evolve since January. Regardless, we believe it's helpful to frame the first quarter. As I discussed, the impressive outperformance in tech and growth stocks was the main theme for the quarter, along with record inflows into the tech sector. The table on the bottom right highlights the change in the volatility environment. Volatility is coming back in 2018 after unusually low volatility over the past two years. Historically, the type of volatility regime changes we are witnessing occurs

in markets that are in decline. We will see if this time is different. A higher volatility environment should be conducive for our strategy considering we are long volatility through our puts. Turning to slide 10. From a global perspective, the synchronized global growth story continues as shown in recent PMI readings. However, based on the most recent PMIs it looks increasingly likely that growth in the second half could experience a deceleration relative to the past 12 months of accelerating growth across the world. In addition, as shown on the table in the upper right, highlighting the Citigroup Economic Surprise Index, an index that compares reported macro data points relative to consensus expectations. Current reported macro data points have continued to miss expectations over the last several months. The other notable changes occurring so far in 2018 are the building and inflationary pressures. As shown on the tables on the bottom of the slid, inflation is building in both goods and services in the US. We continue to believe this will have broad-based implications on companies and markets going forward.

S2 09:28 Moving to slide 11. Mike and I attended several conferences during 2018 and the constant theme we're hearing is building input cost pressures that could significantly impact company margins over the coming quarters. On the left we have highlighted recent management commentary from conference calls on input cost pressures. For perspective, freight costs are expected to be up double-digit in 2018 driven by a shortage of truckers. Labor pressures are building as companies are faced with increasing wages to retain their workforce. Commodity prices are up double-digit for key inputs such as steel, aluminum, lumber, and resins. Importantly, many companies have long-term commodity hedges that were in place during the first quarter. However, hedges are starting to roll off, specifically in the second quarter, and into the third quarter, exposing companies to meaningfully higher input costs as hedges reset. We believe many companies are going to face significant margin risk as we go through 2018. Turning to slide 12. First quarter earnings should mark a quarter of robust earnings growth, shown by strong sales growth, and the benefits from a lower tax rate. However, as shown on the table on the right, as labor cost pressures build, we believe profit growth could slow in the coming quarters. We continue to build a short book of companies that do not have pricing power to offset potential margin pressure.

S2 10:57 Moving to slide 13. This slide summarizes the market environment over the past several years. A market driven by corporate profit growth, combined with favorable liquidity conditions across the world. As the table on the upper left highlights, the change in liquidity environment has been correlated with equity prices across the world and in addition, as shown in the table on the upper right, driven all-time high evaluations as measured by the S&P 500 price-to-sales ratio. As shown on the table on the lower left, accommodative liquidity conditions have driven a surge in everything, from venture capital funding, to IPOs of money-losing companies, many of which will most likely never earn a profit. Lastly, the liquidity environment, combined with ultra-low interest rates, drove companies to take on debt, which has driven corporate debt-to-GDP to previous cycle peaks. Turning to slide 14. So what does an environment of quantitative tightening look like as global central banks try to carefully normalize interest rates? The reality is, none of us know. However, we believe that the market environment could be very different going forward relative to the past several years as shown on the table on the upper left. Volatility environments tend to come and go in cycles. After years of low volatility, it is very possible that we are now entering a period were volatility could be elevated for the years to come. The table on the upper right highlights the dynamic that is changing between stock prices and bond prices. The decline in stock prices is no longer being accompanied by meaningfully lower yields as bonds are offering less protection as inflationary pressures build and as the US government significantly increases the supply of treasury bonds to fund the deficit.

S2 12:50 The table of the bottom left shows short duration bond yields now providing a potential investment alternative as yields have inflected above the dividend yield in the S&P 500. Lastly, the table on the bottom right is data showing the amount of consumer credit card and other types of the revolving consumer credit outstanding. As you can see, consumer debt, excluding mortgages, is above prior peaks. We believe building

consumer debt levels have been masked due to ultra-low rates. However, as the Fed continues its attempts to normalize rates, interest cost headwinds to the consumer could become meaningful. And now I'm going to turn it over to Mike.

S3 13:29 Thanks, Tyler. Please turn to slide 15. 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 164% at quarter end, which is up slightly from 161% at the end of 2017. Table on the right shows our gross long and gross short exposures, delta-adjusted since we launched. At March 31st, we had 85% gross long exposure and approximately 78% gross delta short exposure. Our net exposure on a delta-adjusted basis was 7% net long. Please turn to Slide 16. On the top portion of the 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. Themes highlighted in red have been added to the book since our last webcast. Since our last webcast, we've added and eliminated several new names, both long and short. I will go into greater detail on many of the individual names within America First, Financial Deregulation, and Special Situation themes later in the presentation. We have added new names within our Hard Assets theme. After attending multiple conferences and interacting with company management teams, it is becoming clear that inflation risks are increasing, and we feel there's upside in high-quality commodity producers with significant domestic exposure.

S3 15:05 Within this theme, we've increased our position in Newmont Mining, and added new exposure to Nucor, and Occidental Petroleum. Notably, we liquidated our position in Weyerhaeuser and replaced it with PotlatchDeltic. Within the timber space, we feel the risk/reward is higher at Potlatch, post their acquisition of Deltic, as we think the cost synergies will be significant and drive upside in the stock. Within the Demographic Changes theme, we remain long Calavo, Thermo Fisher, Abbott, and Zimmer Biomet. On the bottom half of the slide, we highlight the current short themes. I will spend time updating our current thinking on several of the names within these themes later in the presentation. Within retail, we added Canada Goose and Skechers. Notably, we were short Skechers when the stock fell 27% last Friday, after reporting earnings. Skechers significantly lowered guidance and the stock suffered as a result. We have since covered our entire position and sold our put exposure. Canada Goose we shorted after seeing the company present at a conference in March. Goose generates the bulk of their revenues from their signature line of parkas and jackets. We think Canada Goose's line of products are faddish and we question whether the company will grow into its valuation. The company went public in March of 2017 at $13 per share and will be lapping very difficult comps as we enter the second half of 2018. At $35 per share, the stock currently trades at 60 times earnings, and 9 times revenues. We think the stock has significant downside in the event they disappoint investor expectations.

S3 16:47 Next, we continue to have short positions in semiconductor names with smartphone exposure. Our thesis has been predicated on our view that the smartphone market has become saturated, and companies tied to the smartphone supply chain will have significant downside as sales and earnings disappoint elevated expectations over the coming quarters. We were pleased to see that just yesterday, Teradyne lowered their revenue guidance next quarter to 500 million versus street expectations of close to 700 million. The stock has sold off 17% over the last two trading sessions. We have sold our put position in Teradyne but maintain a common stock short. We also continue to be short Skyworks and Broadcom. Next, Profitless Growth continues to be a theme. Names in this bucket have shown significant revenue growth but have not generated any profits. Tesla and Shopify fall into this bucket. Tesla has been a winner for us year-to-date. We think there's significant downside as the company burns cash and the Model 3 disappoints. Shopify has hurt us year-to-date. However, we think we're simply early and will be rewarded later in the year. Shopify's business is heavily reliant on data collected from Facebook users. That tailwind is likely to become a

headwind and hurt future results.

S3 18:10 Please turn to slide 17. Here we sum up the most notable changes in the book during the first quarter. On the top left, you can see new long exposure across several names within hard assets, which I just mentioned. Notably, we eliminated Delta Airlines and reduced both Rio Tinto and DowDuPont. We are becoming sensitive about having too much long exposure in early mid-cycle companies. Hence, we've redeployed the capital in our higher conviction names. What you will notice throughout this presentation is that while our gross long exposure has not changed much, the weights in our highest conviction names have increased overall. We want to have our money behind our best ideas. Next, we rotated out of large-cap banks and added a new position in CenterState Bank, and increased our exposure to Seacoast. I will detail each name later in the presentation. On the right, we show the most significant changes in the short book. We continue to gravitate towards names vulnerable to higher rates and ones that are susceptible to potential input cost inflation, which should lead to margin compression. Please turn to slide 18. 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 Situations theme represents the largest portion of long invested capital at 28%. On the right, we show our short themes. Currently, our short book is primarily concentrated in what's bucketed as Other, which are idiosyncratic ideas and not theme-related.

S3 19:43 Let's turn to slide 19. On the next several slides, I'm going to give an update on our biggest ideas, long and short, presently in the book. Leidos is currently one of our largest long positions representing five and a half percent of total capital. Leidos is a $10 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 the company's headquarters in Reston, Virginia and came away very impressed. 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 top-line 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 for roughly 15 times earnings, which is a discount to its peers. It also has excellent free cash flow generation, which management plans to steer towards share buybacks and dividend increases. It currently maintains a 2% dividend yield.

S3 20:58 Next, we have a long position in FLIR, which represents just under 5% of capital. FLIR is a $7 billion market cap industrial company that develops and manufactures infrared technology. The company provides thermal imaging systems for reconnaissance, surveillance, and commercial applications. We have been adding to the position recently after meeting with management at an investment conference in March. We believe FLIR will be a beneficiary of increased defense spending. We are highly impressed with the new management team comprised of CEO James Cannon, who came highly regarded from Stanley Black & Decker, and CFO Carol Lowe who recently joined from Sealed Air. With a new management team in place, FLIR has been divesting non-core businesses and focusing on investments in higher-margin businesses, such as industrial and government and defense. We are pleased to see the new management team off to a good start as the company reported Q1 results yesterday, posting organic revenue growth up 13% and earnings growth of over 33%.

S3 22:07 Turn to slide 20. KLX, we have owned for over two years, and it has grown into our largest position at just over 6%. KLX was spun out of B/E Aerospace in December of 2014. KLX generates over 80% of its revenues from its high-quality aerospace distribution business, which provides a wide range of value-added aerospace fasteners and consumables to commercial airline, business jet, and defense OEMs, and their subcontractors. We think of their aerospace business as the Fastenal for the aerospace industry. The remaining 20% of their revenues are generated through their energy services group, which provides technical services and rental equipment to oil and gas E&P companies. Since spinning out of B/E Aerospace, we have long thought the

endgame for KLX, which is run by its 78-year-old founder, Amin Khoury, is to be sold to a larger entity. In December, the company announced that it has initiated a review of strategic alternatives to maximize stockholder value. We think the company is worth north of $85 per share in a transaction.

S3 23:27 Next, Ashland Global is a $4 billion specialty chemicals company. Ashland is a 4% position. We believe Ashland has significant opportunities to improve profits as a more focused pure-play chemicals company posed to spin off its Valvoline business. In addition, we believe Ashland is an attractive strategic asset for larger chemicals companies that are looking to improve their growth outlook. Based on recent transaction multiples, in the chemicals industry, we estimate Ashland is worth over $90 per share at a takeout.

S3 24:03 Please turn to slide 21. CDK is an eight and a half billion-dollar market cap company that provides information technology, software, and digital marketing solutions to the automotive retail industry. It is presently a four and a half percent position. The company was spun off from ADP in 2015. CDK has a leading market share of over 40%. It operates in a consolidated industry, and it has a sticky long-term recurring revenue model. CDK is undergoing a transformation plan that is expected to improve margins over the next several years. We believe CDK would be better served undergoing its business transformation as a private company. We also think activist involvement from Elliott Management will hold management accountable for maximizing shareholder value, be it further margin enhancements as a public entity, or a sale of the business.

S3 25:06 Next, we continue to be long E-TRADE. Since the financial crisis, E-TRADE has been running off its home equity loan exposure, which has long been considered unattractive by both investors and potential suitors. On the bottom right table, we show that E-TRADE's home equity exposure has been reduced significantly over the last several years. Meanwhile, E-TRADE's fundamentals continue to improve as the interest rate environment has become more favorable, and retail trading activity has increased. Over the next year we expect one of two outcomes to happen, E-TRADE continues to execute and results remain solid and the stock re-rates higher. Or, the company decides to sell itself to a larger rival, which will provide the suitor substantial cost synergies. Either way, we think the stock has significant upside from here, as we believe takeout value to be in the $70 plus range.

S3 26:02 Please turn to slide 22. We continue to have long exposure within the financial sector, which is based on our belief that the sector will benefit from deregulation. Notably, we've rotated away from large-cap global banks, and redeployed capital into small and mid-cap regional banks. Specifically, we've sold positions in Citigroup, Bank of America, and Bank of New York Mellon, and initiated positions in CenterState Bank, and added to our Seacoast position. Notably, we met with both CenterState Bank and Seacoast and had bullish meetings with both of them in March. We are attracted to the strong deposit franchises in geographies with population growth exceeding the national average. As you can see on the bottom left, domestic migration has been occurring with one of the prime beneficiary states being Florida. On the bottom right, we show the fastest growing areas within Florida. Given Otter Creek is located in Florida, we see CenterState and Seacoast as banks that are gaining market share and deposits, and growing their loans in a conservative manner. We view both as franchises that would be interesting to a larger strategic buyer. We also wouldn't be surprised to see the two of them merge to be the dominant franchise in Florida. Both are attractively valued at roughly 14 times earnings, with growth greater than peer average.

S3 27:27 Please turn to slide 23. We continue to have shorts in several names that we think have interest rate risk. Specifically, we want to be short companies that rely on selling big-ticket items to customers that use credit. We continue to believe the RV industry is at risk as most purchasers heavily rely on financing to buy RVs. Winnebago, LCI, and Thor have all been short winners year-to-date. While we have covered Winnebago, we have increased our short exposure to Thor and continue to have short exposure to LCI Industries. We also recently shorted Polaris, a manufacturer of ATVs and ORVs, which similar to RVs, are typically financed.

Polaris reported disappointing results yesterday and has been a nice attributor to performance this week during April. Earlier this month, we re-initiated a short position in Aaron's, which is a rent-to-own retailer whose customers are heavily reliant on financing. Notably, Aaron's stock is down today after reporting comp sales stores down 4% year-on-year, and higher expenses mainly due to increased personnel costs, and bad debt expense. We continue to be short and think there is downside to the low thirties.

S3 28:49 Let's turn to slide 24. We have a meaningful short position, and put position, in Ellie Mae, which is a three-billion-dollar market cap company. Ellie Mae provides electronic mortgage origination solutions. Notably, ELLI has benefited from several multiyear tailwinds that we believe are set to reverse. First, ELLI is heavily exposed to non-bank lenders like Quicken or Home Depot, which have begun to lose market share. We highlight the table on the bottom right. Looking forward, we're beginning to see banks take back share from the non-bank channel. On the top right, we highlight mortgage origination volume over the last few years. ELLI's revenues are tied to volumes of mortgages originated and refinanced. A rising interest rate environment has become a headwind to overall refinanced volume, which is core to ELLI revenues. Finally, ELLI is tied to mortgage lender employment trends as the non-bank channel typically uses ELLI products. As employment trends slow, ELLI's growth trajectory should slow, as well. ELLI currently trades at over 50 times earnings, and 7 times revenues. We think there's significant downside.

S3 30:10 Please turn to slide 25. During the first quarter, we initiated a short position in Energizer Holdings, which is a $3.4 billion company that is heavily exposed to alkaline batteries. The company recently has been experiencing significant private label competition. The table on the top right shows Energizer revenues, which have gone from growing double-digits to declining in the fourth quarter. We suspect this decline will intensify. On the bottom right, we show the cost of a 48-pack of AA batteries from Amazon, which cost $13.99 versus a 24-pack of AA batteries made by Energizer for $12.99. We think Amazon and other private-label competitors have begun to pick up significant market share. Notably, Energizer stock has re-rated higher as bulls are excited about their recently announced acquisition of Spectrum Brand's battery business. We view it as Energizer doubling-down on a sectorally-challenged business, using leverage. We expect Energizer stock to re-rate lower as the company continues to report disappointing results.

S3 31:30 Please turn to slide 26. On this table, you can see our sector exposures as of March 31st. The 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 exposure weightings are in technology and the financial sector. We ended the quarter approximately 3% net short information technology, and roughly neutral financials. The next largest sector exposures were in consumer discretionary, industrials, and consumer staples.

S3 32:08 Turn to slide 27. On this slide, we show the weighted average market cap in the long portfolio versus the short portfolio. As you can see, the average market cap of both the long and the short portfolios are roughly 50 billion. Our longs maintain a weighted average PE of 15 times versus 50 times on the short side. The bottom tables show our top 10 positions as a % of Net Assets at the end of the first quarter versus the end of 2017. As you can see, the weightings of the biggest positions have increased. The common thread here is most of the names that have grown in size are Special Situations. KLX, CDK, and Ashland are all in the midst of strategic reviews, and we feel inclined to have heavy exposure, as we think the outcomes will be positive for shareholders.

S3 32:57 Let's turn to slide 28. On one of the initial slides to today's presentation, we included that one of the goals 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 of 3% or more since our inception, and the performance of the Otter Creek Long/Short Opportunity Fund during those drawdowns. We would note that the first quarter of 2018 experienced multiple drawdowns of 3% or more. During these drawdowns, we have lost a little bit of

money. Admittedly, we were disappointed we didn't make money. What surprised us is that the most liquid names in the large-cap spectrum, which we had heavy long exposure to, sold off significantly more than the overall market. It was a strange phenomenon that we didn't anticipate, and we suspect it was CTA and quantitatively driven. With that, let's turn to Q&A.

S1 33:52 All right, Mike and Tyler, thank you so much for your comments this afternoon. We'll now open up for Q&A, and as a friendly reminder to the audience, if you have a question, please feel free to submit it in the questions chat box in the bottom of your control panel, or you may email them to trogers@dakotafunds.com. First question. Why has the gross exposure of the fund expanded to its highest level?

S3 34:17 I'll take that one. It's a good catch. At quarter end our gross exposure was roughly 164%, since inception we've probably bounced between, 140 to 160%. There is no question that it's at the highest since we've launched. And I think if you were to peel back the onion, the long book has typically been in the mid-80s range, but this time around, it's really a function of where we're finding our best ideas. And while we have 85% long exposure, we also have roughly 78% short exposure. And that 78% short exposure is reflective of finding what we think are very good short ideas. So what falls out from that is a gross long exposure that is at our highest level since we've launched.

S1 35:11 Thank you Mike, and next question here. Curious why the fund has acted so well recently?

S3 35:18 Good question. We're happy to see that because it's been a long time coming. But it's interesting. We have a long book of 30 names, a short book of 30 names, so we're very idiosyncratic and sector focused. And what's happened recently is a lot of our names have been playing out specifically this earning season. You think about the semi short theme that we may have put on too early but it's finally coming to fruition. Names like Teradyne yesterday, even Skyworks, and Broadcom are working. You look at names like Skechers last week, which is the retail bucket that we've had short exposure. Our theses seem to be coming to fruition in several of these names. And I would just add that it definitely feels like some of the liquidity in the marketplace has been removed. I don't want to say its quantitative tightening, but it definitely feels like the volatility recently is to the downside, specifically this earning season, has finally returned. Typically this type of environment is where our bread and butter is, and we tend shine. So it's definitely nice to finally see it come back into the marketplace.

S1 36:36 Thanks, again. Next question here. Where are you currently looking for new ideas?

S2 36:43 Yeah. I mean, listen. I think on the short side we kind of laid it out in the presentation. We are really focused on the potential risk to margins, and really focused on names that have benefited significantly from a really low inflationary world. A world that's been driven by endless QE, endless low rates, and that can be consumer durables tied to big ticket. We're spending a lot of time on the commercial real estate sector, which has just been on fire for effectively nine years. I think we're skeptical there, we don't have a lot of exposure, but it's definitely an area of focus. So really on that short side it is names that have been big beneficiaries of low inflation, low rates, and could really be set up pretty negatively as we look out for the next 3 to 12 months. It just seems like there's a lot of opportunity there for names to disappoint. On the long side, we'll still continue to navigate our way, build a watch list, and continue our due diligence on some of the hard asset names. I don't think you're ever going to see those probably be in our top 10, as they're a little more volatile sometimes. But I do think those areas, one, they're obviously, late cycle. Two, they're inflationary beneficiaries. And then, three, they've still very depressed versus the unbelievable outperformance for tech and FANG in those sectors. So the hard assets, specifically, the agriculture space, is a big focus of ours, as well.

S1 38:20 Thank you, Tyler. Next question here. Don't situations such as Energizer's take time to play out? Why is this the time to short Energizer?

S2 38:29 Sure. Great question. This is exactly why we think it is the time to play out. Ultimately when it comes to names like Energizer, the stock has moved pretty significantly on buying the Spectrum Brands Rayovac business, which has actually struggled a bit. What's a little bit different here is you have a lot of data out there if you want to spend the time and do it, as far as there's a lot of data from what we call scanner data. So going anywhere from Walmart, to grocery stores, even areas where they're in Costco and what not. And what the data is saying over the last several months, is the unit trends in the battery business are really getting very weak. And it's pretty universal. In our view the Energizer story just wasn't working in the current form. So what they did is tried to lever up the balance sheet pretty significantly, and double-down on a really unattractive category. However, the transaction will be accretive to earnings as they will be taking out a lot of costs. The issue is, as you run into first quarter, I think the bloom comes off the rose, just given the fact it's going to force people to focus on what are really weak organic unit trends for this business. We just don't see the trend abating no matter how much in cost cuts their going to try and wring out of the business.

S1 39:47 Thank you so much, Tyler. That does wrap up our Q & A session for today. I would just like to turn the call back over to the two of you for any closing remarks.

S2 39:57 Yeah, sure. Listen, I think we just want to take a minute and just thank everyone for their support, obviously. The last several quarters have kind of, I guess, tested both of our resolves. But, I think, hopefully-- I mean, hopefully, what you can see from the presentations, we're just continuing to gain more confidence daily not only in the individual ideas that we have but a much more favorable investing backdrop for the fund and expect that to hopefully continue. So thanks, again.

S1 40:26 Great. Thanks, again, to 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 derivatives. Derivatives involve risks from and in certain cases greater than the risks presented by more traditional investments. Derivatives may involve certain costs and risks such as liquidity, interest rate, market, credit, management, and the risk that a position could not be closed when 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 principle value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The 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 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.