ALMA CAPITAL

Alma Apis Global Long/Short Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

apis

As of 28 September 2018

Fund features

- Global long/short equity strategy
- Geographic focus in North America, Asia, and Europe, with some emerging markets exposure
- Sector focus in Technology, Consumer, Healthcare, Industrials and Cyclicals/Materials
- Emphasis on small to medium capitalisation securities
- Portfolio holdings typically around 80 to 100 names (40/50 longs + 40/50 shorts)

Investment manager: Apis Capital Advisors LLC (New York, US)

- The investment manager is Apis Capital Advisors, LLC ("Apis"), an SEC registered, New York-based, fund management firm founded in 2004
- Borderless approach to stock selection: Apis seek investments wherever their research achieves the most leverage, inefficiencies are greatest, and analytical competition is weakest – across countries, sectors, and market capitalisations
- Management owned
- Team leverages on global relationships built over 25 years of global investing

Cumulative performance (%)

	I USD C	I EUR H C	MSCI ACWI Index**
1M	-6.36	-6.63	0.44
3M	-7.52	-	4.28
6M	-7.09	-	4.91
YTD	-	-	-
1Y	-	-	-
Since inception*	-7.69	-	-0.36

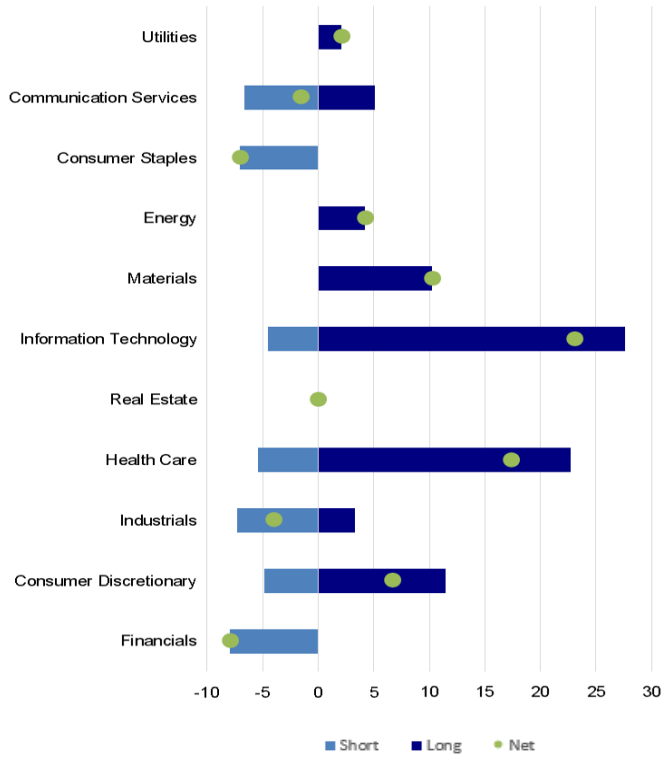
* 17 January 2018

** All Countries World Index (with dividends net of taxes). Ticker = NDUEACWF

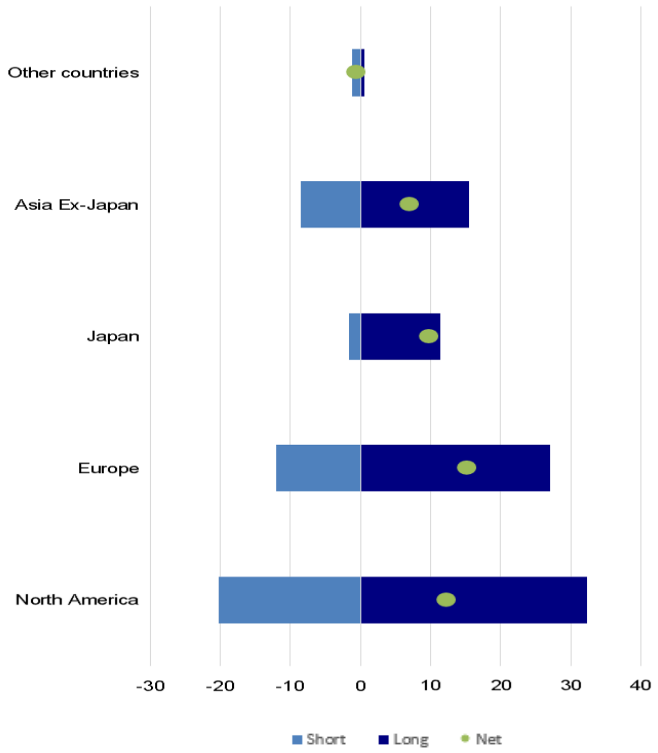
Portfolio characteristics

Number of securities - long book	42
Number of securities - short book	44
Weighted Average Market Cap ($ bn)	7.2
Median Market Cap ($ bn)	3.5
Long equity exposure (% of NAV)	86.7
Short equity exposure (% of NAV)	43.8
Gross exposure (Long + Short) (% of NAV)	130.5
Net exposure (Long - Short) (% of NAV)	43.0

Sector exposure (% NAV)



Geographical exposure (% NAV)



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Main positions

Top 5 long positions	% NAV
Health Care	4.96
Materials	4.50
Information Technology	4.27
Energy	4.24
Materials	3.65
TOTAL:	**21.62**

Top 5 short positions	% NAV
Consumer Staples	-1.21
Financials	-1.31
Financials	-1.43
Health Care	-1.47
Communication Services	-1.49
TOTAL:	**-6.91**

Investment manager's commentary

There's no reason to mince words – our 3Q performance was disappointing. Next to the global benchmarks, our underweight to the U.S. relative to other regions, compounded by uncharacteristically poor stock selection in the U.S. and Asia, hindered results. What was also unique in the quarter was that our underperformance was concentrated in one sector, Technology. Our bullish view on the multi-layer ceramic capacitor ("MLCC") market, highlighted in last quarter's note, did not perform as expected. We hope the detailed discussion below will provide more insights into our thinking through this environment, and how we have adjusted exposures as the narrative changed.

Consistent with our risk management process, we reduced gross and net exposures overall, while adding small additional exposure to less economically sensitive areas such as Healthcare. The brunt of our reduction in exposure came in Technology, with gross exposure to the sector falling over 17% and net exposure falling 14%. As ever, this is not a "top-down" call on these sectors, but merely taking the markets' daily feedback, which clearly and emphatically is calling us "wrong" on several Technology names. We are putting some of that to work in Healthcare names where we're excited and the market is supportive.

To be continued next page.

Fund facts

Fund total net assets: $29.06 M

Fund domicile: Luxembourg **Fund type:** UCITS SICAV

Management fee: 1.25% p.a. **Base currency:** USD

Performance fee: 15% of net profits, with high watermark

Custodian, Administrator, Transfer Agent:
BNP Paribas Securities Services (LU)

Dealing: Each day with a 1-day notice. Cut-off time: 12 pm CET

Management company:
Alma Capital Investment Management (LU)

Investment manager: Apis Capital Advisors LLC (New York, US)

Portfolio manager: Daniel J. Barker

Identifiers:
Institutional USD Capitalisation share class
Isin: LU1321566892 - Ticker: ALCGIUC LX Launch: 17 January 2018
Institutional EUR Hedged Capitalisation share class
Isin: LU1321566975 - Ticker: ALCIEHC LX Launch: 11 June 2018

Countries where the fund is registered:
Luxembourg, United Kingdom, Germany, Singapore

Contacts

Nick Stoop (UK)	+44 77 8980 0397
Stephen Fordham (UK)	+44 20 3709 3609
Andreas Lehmann (UK)	+44 20 7389 1338
Hervé Rietzler (FR / CH / LU / IT)	+352 28 84 54 19
Dirk Tödte (DE / AT)	+352 28 84 54 16
Louis de Vulpillières (FR)	+33 1 56 88 36 58
Baptiste Fabre (FR)	+33 1 56 88 36 55

sales@almacapital.com

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Given the above, it's no surprise that 9 of our top 10 detractors came from the Technology sector. For example, Holy Stone and Kemet (MLCC related), Sumco and Global Wafers (Semiconductor related) were a few names that experienced significant retracements. While many of these detractors look compelling on valuation (high-single digit yields and price/earnings multiples), we recognize stocks such as these behave similarly to other capital cyclical equities, looking cheap at the peak of the cycle. These will be terrific performers should global growth continue, but as the narrative shifts from a bet on a company (where we're comfortable) to a bet on trade policy or other macroeconomic variables (where our value-add is less impactful), our confidence, and therefore position sizing, has been reduced. On a more positive note, names such as Fila (the sportswear brand) of Korea and Evolution Gaming of Sweden made solid contributions and continue to be "core" holdings for the Fund. Additionally, several recent additions to the portfolio have made fast contributions, although we believe their story is just beginning. We will likely disclose them in future letters when our position sizing settles.

POTFOLIO UPDATE

The quarter and September were challenging periods for the Alma Apis Funds. We don't believe in excuses; the markets render their verdict and we accept and take responsibility for the outcome, whether good or bad. Hopefully by walking you through the last quarter in the following pages, you'll appreciate that reasonable, rational decisions and the occasional panicky market move is just a speed bump in an otherwise successful investment process. As Wall Street Journal finance columnist Jason Zweig noted, "the true test of an enduring market strategy is not whether it works at any given time, but whether it works over time." Having now generated substantial alpha over nearly 15 years using our approach to global investing, we are confident it will continue to outperform and make distant the memories of an occasional poor quarter.

This past quarter conspired against our strategy in two ways. First, from a top-down perspective, our positioning in foreign markets and small capitalization companies, with several of those in the technology hardware sector, was ill-timed. Virtually all non-U.S. countries have detracted from the overall year-to-date performance of the MSCI World Index.

Our challenges largely came down to one sector (Technology) in Asia ex-Japan. Prior to September, this was not the case. Our risk management approach, which has historically been very effective, reduces or starves (incrementally) what is not "working" in the portfolio and feeds (again, incrementally) what is "working." Because we are pragmatic and deliberate, it does not work particularly well when there is a sudden change in sentiment as was the case this past quarter. We believe radical changes in portfolio construction based on volatility or some guess of market direction is a fool's game. Human nature tends to drive total capitulation at exactly the wrong time. Instead, you will see Apis' gross and net exposures gradually come down in rough patches and gradually increase in good times. Over time, we have been well served by this approach, but the sudden and violent turn this past quarter was a rare instance when our incremental approach was not ideal. We have taken note and adjusted accordingly.

Compounding the top-down issues, we saw indiscriminate selling which ran counter to bullish fundamentals. These stocks were cheap at their highest prices and yet they have fallen dramatically while earnings only continued higher. We can count on one hand the number of times we've witnessed this type of development. It is highly unusual and smacks of forced selling. Holy Stone Enterprise in Taiwan (which we wrote about in last quarter's letter) is a good example of this.

Earlier this year, we became interested in the companies competing in the MLCC industry. You can read more about it in our last letter, but there was (and remains) a significant supply-demand imbalance which was underappreciated by the market. As is our nature at, we didn't look to invest just in acknowledged leaders such as Yageo of Taiwan or Murata of Japan. Instead, we looked for a company that had unappreciated exposure to the MLCC trends, such as Holy Stone Enterprise, thinking it could benefit from both a valuation re-rating and "discovery" as people seek more ways to invest in the MLCC opportunity.

Following a call with the company, it was clear to us that the market's expectations for Holy Stone were too low. Our internal model suggested EPS of 23 Taiwan Dollars versus Street expectations of 13 Taiwan Dollars for 2018. When we see such disparities and have high conviction, we look to make these ideas "core", which generally dictates a position size between 5% and 10%. Initially, the stock worked well. We started buying in the high 100's/share and became more aggressive while the stock rose into the low 200's as the thesis began to play out. Earnings in the second quarter were fantastic. EPS of 3 Taiwan Dollars in Q1, doubled to over 6 Taiwan Dollars in Q2 as new capacity of high-end MLCC's began contributing. With earnings over 9 Taiwan Dollars in the first half, analysts started to take their numbers up and the stock jumped to 300, peaking in the first week of July. Retail investors in Taiwan were enthusiastic for the stock, just as we'd hoped.

But competing with local retail investors is a double-edged sword. Their short-term trading can hurt at times, but it often presents some golden long-term opportunities. From early July, the sector, including Holy Stone, began to fall. The fall was exacerbated as margin calls forced retail investors to sell. Our phone calls with the company continued to suggest sales and earnings would keep hitting new record highs. With the stock (and the broader group of peers) off 30%, our inclination was to add thinking we were getting a 'second bite of the apple.' We viewed this pullback as unsurprising volatility and looked to take advantage of it.

The company issued a press release in early August showing sales again at records and EPS (for the month) of $2.8 Taiwan Dollars. They earned in one month what had taken over 6 months to earn the prior year. After a brief bout of strength, the stock continued lower. Making matters worse, the volatility caused by margin sellers was exacerbated as the exchange increased margin requirements due to volatility. Of course, this only created additional volatility and more margin selling.

At this point, we would probably begin to capitulate and reduce our exposure. Investing is not about being "right," it's about making money and we were clearly not making money. However, with the stock settling in the 180 range we had a scheduled a trip to Japan, Korea, and Taiwan for mid-September. Our plan was to sort this mess out as we visited with a long list of MLCC companies. The message we received was consistent throughout the region. The outlook for MLCC's is strong. Prices are expected to climb next year when annual contracts are re-negotiated. Electric vehicles, automation, etc. require more capacitance, and the now consolidated MLCC industry would act with discipline and better align supply-demand going forward.

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The last leg of the story, bringing us through September, was a renewed concern for global growth (especially in Emerging Markets) and a broad sell-off in semiconductors which also hurt the MLCC stocks. Markets, already spooked by delays in Samsung's capital expenditures, were further rattled by Micron's forecast. Holy Stone morphed from a small company investment to a macro bet on the global economy. We are pragmatic, if nothing else, and have a whole world of investment opportunities to uncover. Despite an excellent fundamental story with MLCC's, we've shifted gears and are now aiming elsewhere. While our thesis for Holy Stone may ultimately be proven correct, we have significantly reduced our exposure. Holy Stone now trades at 120 with a P/E ratio of five - a level where many cyclical technology companies are now trading. The market is telling us there is a problem and we must respect that.

While we hope you've enjoyed the Holy Stone saga (we haven't!), it is a representative, although extreme, example of what ailed us this quarter. It's not as sexy as making outsized returns, but preservation of investor capital remains paramount to us. Our exposures have come down accordingly and the complexion of the portfolio has transitioned to more idiosyncratic ideas and less exposure to macro winds and the fickle whims of foreign capital. We continue to have small positions in the MLCC industry and hope to add when the timing improves. If it doesn't, we'll simply move on.

OUTLOOK

We learned a few new things on our recent trip to Asia that bear watching. First, cryptocurrencies were more important than we realized, specifically with respect to their impact on a wide swath of electronics. No doubt crypto-related technology spending inflated demand in 2017 and early 2018. There is a hangover effect that will get sorted over time. Second, Trump's trade war in China is more impactful than we appreciated. Several Taiwanese companies built inventory ahead of this in late 2017 and early 2018, fearing uncertainty. Now that the trade dispute has started, they are hesitant to invest – undoubtedly hoping it will all blow over. Demand was inflated ahead of the conflict and is now artificially suppressed. Tariff uncertainty has made corporate planning difficult and this is affecting companies all over the world, particularly those that manufacture in China. They are beginning to explore alternative manufacturing locations. This disruption will slow growth as companies wait for more clarity.

On the positive side, traditional Cyclical areas seem okay. Steel, commodities, and machinery are all acting better. China is back to pump-priming their economy as they support growth (once again) through property and infrastructure spending. This is supportive on a short-term basis. Another area of excitement is 5G wireless which looks set to start in 2019 and accelerate in 2020. 5G will spark significant network and infrastructure investments as well as bring growth back to the smartphone market that has been flat for two years. Lastly, China is continuing to tackle environmental issues. This is not only good for the world, but also supports several of our investments that rely on their continued vigilance.

The portfolio has undergone some significant changes as we have reduced Cyclical technology and Asian exposure, added Healthcare exposure and U.S. exposure, and left European exposure largely unchanged. Outside the specific area of Technology hardware, all other regions and sectors have performed well. Our investment team is humming (with the addition of two new members, which we highlight below), and we have some great new "core" ideas percolating.