FOR PROFESSIONAL INVESTORS ONLY

Alma Apis Global Long/Short Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

As of 31 December 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	-3.40	-3.66	-7.04
3M	-13.14	-14.13	-12.75
6M	-19.67	-21.29	-9.02
YTD	-	-	-
1Y	-	-	-
Since inception*	-19.82	-	-13.07

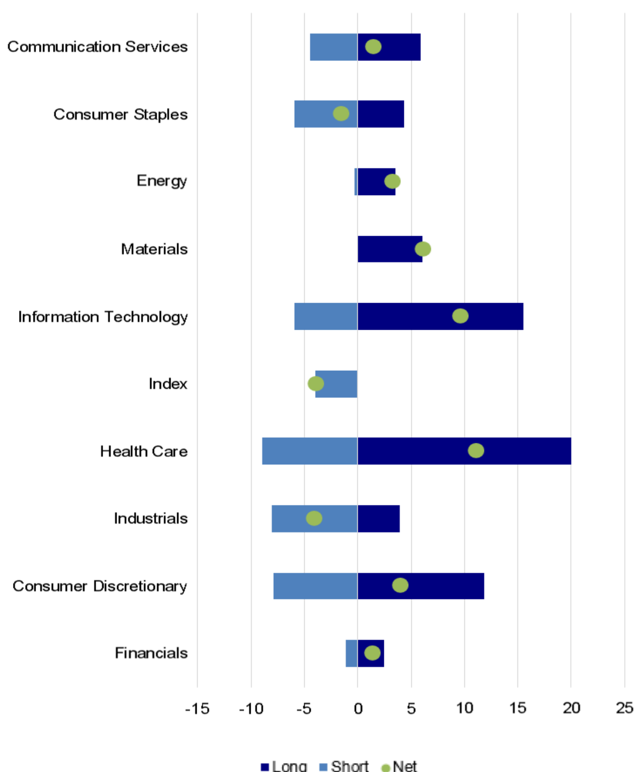
* 17 January 2018

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

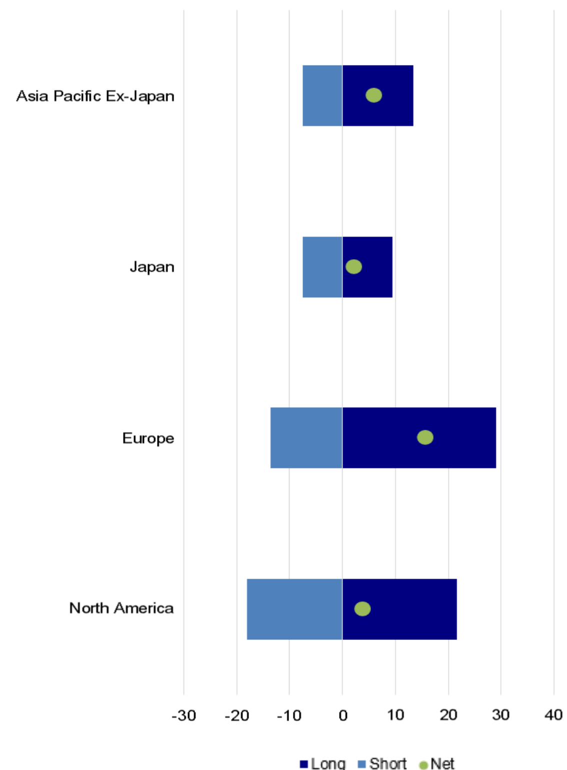
Portfolio characteristics

Number of securities - long book	34
Number of securities - short book	45
Weighted Average Market Cap ($ bn)	8.3
Median Market Cap ($ bn)	2.9
Long equity exposure (% of NAV)	73.6
Short equity exposure (% of NAV)	46.6
Gross exposure (Long + Short) (% of NAV)	120.2
Net exposure (Long - Short) (% of NAV)	27.0

Sector exposure (% NAV)



Geographical exposure (% NAV)



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Main positions

Top 5 long positions	Country	% NAV
Health Care	Ireland	7.45
Consumer Discretionary	South Korea	5.19
Consumer Staples	Japan	4.31
Health Care	United States	3.70
Energy	Norway	3.53
	TOTAL:	**24.18**

Top 5 short positions	Country	% NAV
Consumer Staples	Netherlands	-1.95
Industrials	France	-2.11
Index	Taiwan	-1.95
Consumer Staples	United States	-1.54
Health Care	South Korea	-1.74
	TOTAL:	**-9.30**

Investment manager's commentary

The performance of our Fund in 2018 was driven by weakness across all geographies, which continued from the third quarter into the fourth. Foremost among all regions during the year was Asia Ex-Japan which was followed by Europe. From a sector perspective, Technology accounted for most of the negative performance, followed by Healthcare. At the individual name level, our biggest detractor during the year was Holy Stone, while our largest winner was a long in Fila Korea. Holy Stone has been discussed in our last two quarterly letters, while we highlight our investment thesis for Fila in this letter below.

During 4Q18, our biggest winner was also Fila and our largest detractor was a long in Silicon Motion. Silicon Motion has been discussed in detail over the years. It sold off with the broader market, but we continue to see excellent value there.

To be continued next page.

Fund facts

Fund total net assets: $25.11 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

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Our investment process typically leads us to long ideas where, after doing a significant amount of up-front work, we start a small ("farm team") position and add to that as the price action works in our favor, along with meeting fundamental milestones. In the back half of 2018, this strategy struggled as fundamentals continued to hit and often exceed their milestones but the stock prices – specifically in macro sensitive sectors such as Cyclicals – dropped. The decline was dramatic and fast, much more so than we would have expected given the macro backdrop. In almost every investment strategy, a sustained trend is required for success. This was largely absent across most asset classes and markets in 2018.

On the short side of our portfolio, we typically focus on companies and industries in long-term secular decline (such as cigarette lighters & newspapers), but these are not terribly sensitive to sudden downturns in the stock market, so we benefit from these shorts to a much lesser degree. While we don't obsess about the general market, we do use a checklist of factors to monitor the macro environment and reconcile this with our stock picks. The idea is to get out of the way of oncoming traffic. While a few of these factors had begun to soften by 3Q18 they were still consistent with an upwardly biased market – a conclusion echoed by most. But every sell-off is a bit different and this one was particularly sharp, especially outside of the U.S. where markets like Germany and Korea fell from peak-to-trough by ~30% in dollar terms. Of course, we are inclined to speculate about why this sell-off was different (and why we didn't predict it!) with the humility to acknowledge that as fundamental investors we "need" an explanation, but there may be no satisfying one. We think there may be a few reasons why this was different than past patterns. For starters, there is a unique cocktail of political issues that the market may be losing patience with (this may be an understatement, but we'll spare the reader a dissertation). This is tough to discount, and it seems at various points the market dismisses these concerns and then it doesn't. Additionally, we must acknowledge that information has gotten very democratized; valuable indicators (e.g., yield curve) are publicized, largely known and easily tracked. It's certainly possible that these softening indicators are being discounted sooner than ever, as though they are flashing red. As we highlight below, in addition to tweaks to our gross and net exposures, we've adjusted the portfolio to refocus our efforts on positions that should be less vulnerable to either political or macro risks in acknowledgment of the market volatility and softening indicators. While 2018 was a disappointment, the volatility has shaken a lot of fruit out of the tree – we plan to take advantage of these opportunities in 2019. We are first and foremost stock pickers and believe we can continue to generate strong, long-term returns for our investors.

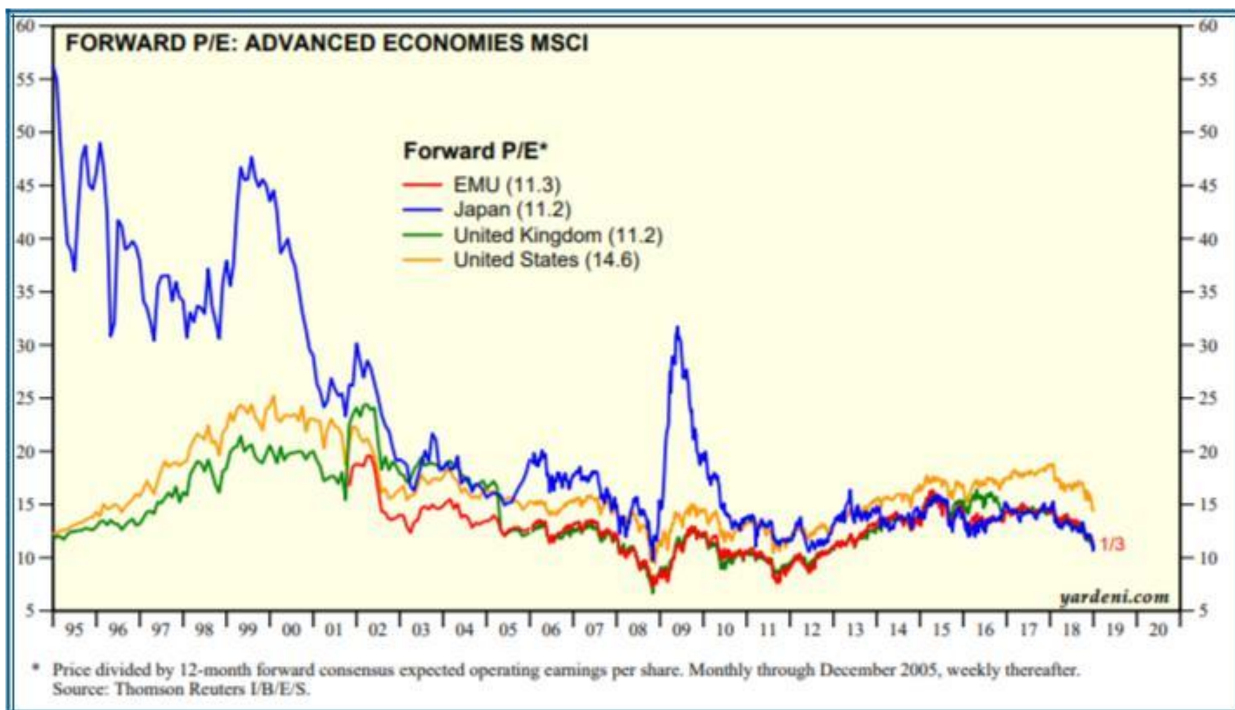
Outlook and Portfolio Positioning for 2019

It has always been our view that forecasting market direction is a waste of time, but "listening" to markets as well as individual stock price movements and interpreting the meaning (if any) of those movements is an important part of what we do. The message coming out from 2018 is clear: a global recession is coming.

While we are aware that "the stock market has predicted 9 of the last 5 recessions" and both markets and recessions may act independently, our reading of the tea leaves is that recession

is exactly what the market fears. Economically-dependent stocks such as housing, autos, semiconductors for example have been marked down well ahead of events and look like bargains while defensive consumer, healthcare and software names have held up well and look relatively expensive.

While the range of valuations looks widest in the U.S., overall the market is “reasonably” valued, while other markets have valuations on par with 2011 and heading towards 2008. Japan hasn’t been this cheap in 25+ years. When one considers interest rates, valuations are even more compelling. What does a German do when they have the choice between a 10-year bond yielding 0.2% or stocks with earnings yields of nearly 10%? At least in the U.S., 3% interest rates provide some alternative.



If we are entering a deep recession/credit crisis, there is much more downside to stocks and even those “cheap” Cyclicals will decline further. If we have a milder recession it might be baked in the cake, especially in cyclical areas that are even more depressed than the general market, and if we don’t have a recession at all there can be significant upside; again, especially in those areas of the market that have discounted a recession already.

When looking at the data such as yield curves, credit spreads, the Composite Index of Leading Indicators (LEI), manufacturing indexes, etc., most have deteriorated from high levels, but don’t yet flash red. One important exception is China where economic survey data is turning pessimistic and real economic data (not the stuff “made up” by the government) such as property prices or auto sales is showing weakness. Of all the data you can follow, it’s our belief that China holds the key. China is a consumer of roughly half the world’s copper, steel, coal, cement etc., not to mention iPhones. With China contributing 40% of worldwide GDP growth, the rest of the world will follow their lead.

The good news is that China is addressing it. They are implementing a (typical) list of measures such as tax cuts, reserve requirement cuts, auto/appliance subsidies, infrastructure projects, etc. Since these measures have historically worked, there's reason for optimism that current trends will reverse. That said, the day will come where these measures fail. The accumulated amount of malinvestment in China will catch up with them eventually, but it's an extremely hard call to time.

With that as a backdrop, how do we position the Fund? For now, we are conservative on the portfolio, but still aggressive on our stocks. In other words, we are at the lower-end of our overall market exposure ranges, while at the same time having investment ideas that merit larger individual position sizes. As we get more (or less) comfort on global (and most especially Chinese) macro developments, we will adjust accordingly. Importantly, we continue to do what we've always done and what has generally worked over the last 15 years – conduct original, fundamental research and dig into areas where discovery hasn't occurred or where we have developed a confident thesis that radically deviates from consensus. Given the economic uncertainties, we favor idiosyncratic ideas that don't depend on the cycle. Fila, which we highlight below, was a "winner" in 2018 that we think will continue to grow in 2019 no matter what the environment. Another is Royal Mail, which is more of a "melting ice cube"-type short and part of a larger theme of privatized government utilities we have in our portfolio that are burdened by high (largely, fixed) costs and secularly declining revenues.

Investment highlights

Fila (ticker: 081660 KS)

A truly global name, Fila is a sneaker and sportswear company with operations and partnerships across the world. It is a legacy Italian tennis brand that fell on hard times until it was resurrected by South Korean owners, where it is now headquartered. It has a U.S. business, a major Chinese joint venture, and European brand licensees. Most surprising to golf enthusiasts is that Fila is also the majority owner of Acushnet, the company behind Titleist Golf.

The most exciting thing about this company is, well, everything. Recently, Fila completed a drastic operational pivot to a low-cost structure. It changed its manufacturing process and shuttered underperforming stores. The result has been improving margins in its owned-businesses (U.S. & South Korea). In China, Fila has partnered with Anta Sports, a large retailer who is pushing the brand hard. Anta is opening Fila stores at a furious rate. It plans to grow the Fila store count at a growth rate of nearly 40% for the next few years off an already sizable base. This is leading to overall China sales growth of approximately 80%.

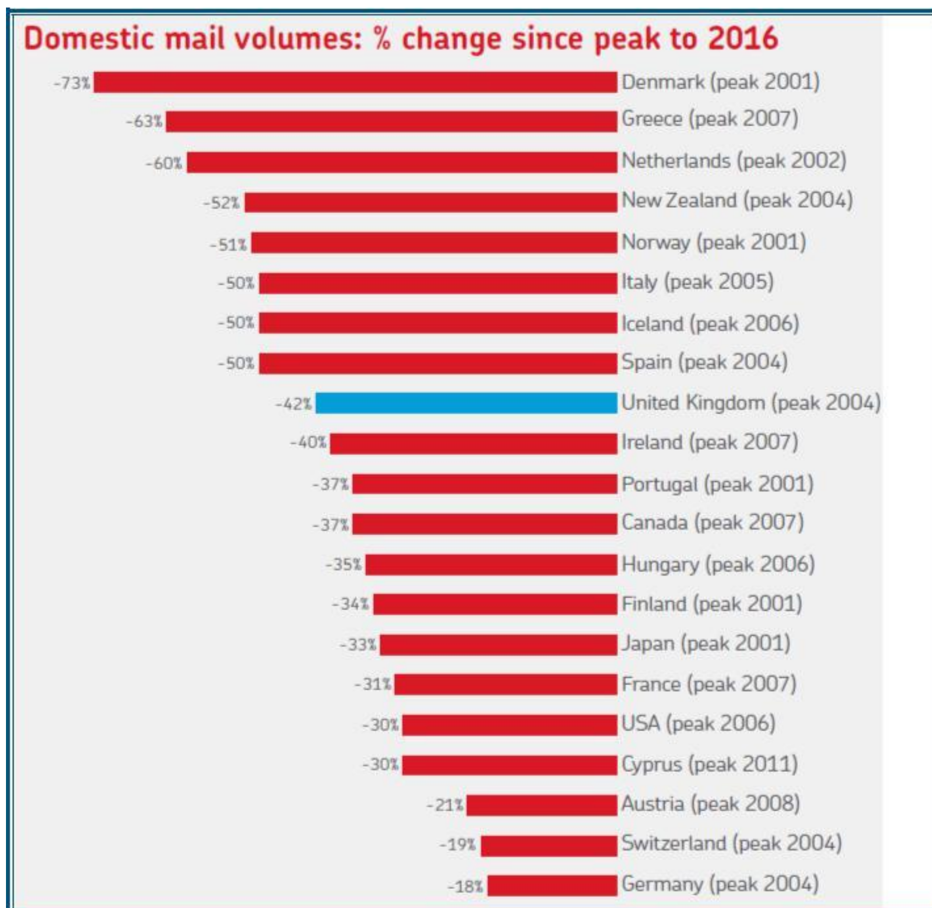
The brand is benefiting from a global renaissance of sorts as millennials are gobbling up anything retro and athleisure, and "dad sneakers" are the hottest thing right now. In fact, Fila's flagship shoe, the "Disruptor 2", was named the 2018 shoe of the year. According to our checks, most retailers weren't even able to keep it in stock during 4Q18. Fila's rising popularity isn't just confined to its shoes – Google searches for the brand have been consistently growing at 100% year-over-year across all regions. Take a walk outside and you'll likely see cool, young people wearing a Fila sweatshirt or hat.

All of these dynamics are leading to supercharged growth and earnings. But despite being one of our best performing names in 2018, the stock still trades at a discount to peers and is very much unknown outside of Korea. We think the Street is overly-conservative in their estimates for 4Q18 and 2019, and the company should easily beat. Based on our 2019 estimates, and after backing out the value of U.S.-listed Acushnet (ticker: GOLF US), the core

FILA-only business is trading at 6.5x EBITDA, which is incredibly cheap. Using a 14x multiple on the FILA-only business (in-line with the low-growth sportswear comp group), the stock would be 100,000 Korean Won, a double from current prices. Using a high-growth multiple (22x EBITDA), and the stock would triple. This business is truly firing on all cylinders, and we think shares have a lot of room to run.

Postal Shorts (Royal Mail ticker: RMG LN; Singapore Post ticker: SPOST SP)

One area where we have identified attractive short opportunities is the publicly listed postal operators. It should come as no surprise that the entire letter mail industry is in structural decline due to the Internet. This is a global phenomenon – mail volumes have declined by over 30% since their peak in the early 2000's in most developed economies and, in 2017, global mail volumes were down 4.6% from the prior year, after nearly 5% declines in 2015 and 2016.



Growth in parcel delivery resulting from the proliferation of e-commerce has helped soften the blow on the revenue line for many of the postal operators, but it is a much more competitive and capital-intensive operation than letter mail and thus, comes with much lower margins and cash generation. Bargaining power of large e-commerce players is high, pressuring prices across the industry, and some retailers eventually decide to do delivery themselves (e.g., Amazon), cutting the postal operators out of the picture entirely. At the same time, heavy investment in IT infrastructure and automation is necessary to meet demands for fast delivery times and tracking capabilities. All of this has resulted in revenue and profit growth that trails

volume growth in parcels, leaving the postal operators barely offsetting the declines in their traditional mail businesses. Add a rigid cost base with many unionized employees, as many of the operators have, and you get a margin crunch.

Most Americans will be surprised to learn that of the 50 postal operators that are part of the International Post Corporation, 10 are publicly listed. Previously loved by some investors for their seemingly stable dividends, these stocks started to get sold off this past year as the sustainability of the dividends came under question. While some of the listed operators seem to have their bleak earnings prospects priced in at current levels, we think there is further downside in others such as Royal Mail and Singapore Post.

For Royal Mail, the U.K.'s publicly listed postal operator, declines in letter volumes worsened to -9.1% in the six months ended September 2018, versus -3% in the 12 months prior. Given the maturity of the e-commerce market in the UK – penetration of 18% of retail sales versus an average of 9% across Europe – Royal Mail is not seeing the same double-digit parcel growth that its European counterparts have, so it has looked to overseas acquisitions to bolster its top line. However, these acquired businesses don't have enough scale to compete with larger global players, so they have disappointed. The company is struggling to cut costs fast enough in the face of these headwinds, especially after making concessions to its union early in 2018 after employee strikes. Difficulty with cost reductions and particularly unions is a serious problem given the shrinking revenues.

Royal Mail might look like a bargain with its 8.5% dividend yield, but we think it is highly likely that the dividend gets cut as earnings are set to decline below the level of the dividend for the first time in 2019. We see similar dynamics at Singapore Post, the nation's listed mail carrier, which may have even further to fall given its especially rich valuation of 18x earnings.