ALMA CAPITAL

Alma Apis Global Long/Short Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

apis

As of 28 June 2019

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)

- Apis Capital Advisors, LLC ("Apis"), is 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	MSCI ACWI Index**
1M	2.50	6.55
3M	-2.00	3.61
6M	8.78	16.23
YTD	8.78	16.23
1Y	-12.62	5.74
Since inception*	-12.78	1.04

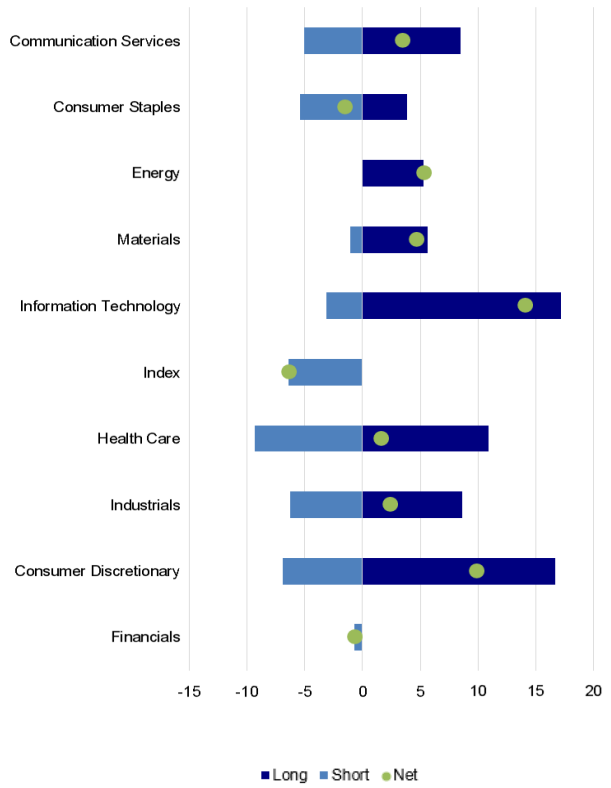
* 17 January 2018

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

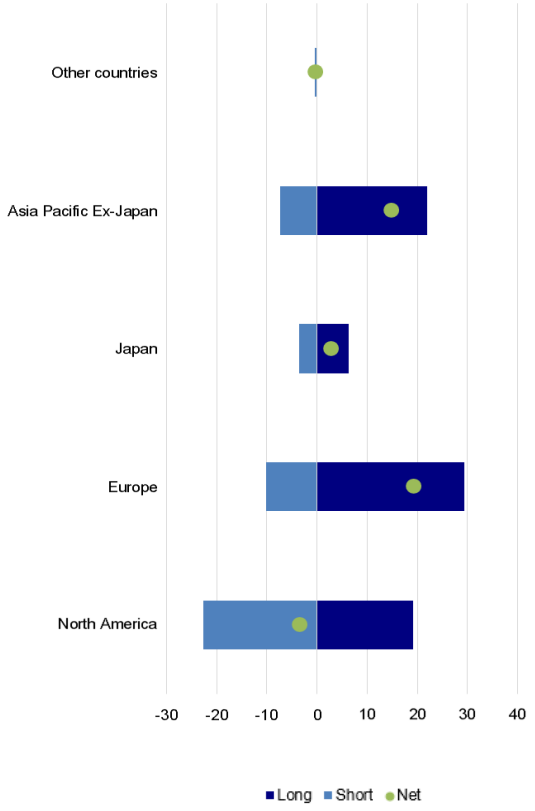
Portfolio characteristics

Number of securities - long book	43
Number of securities - short book	54
Weighted Average Market Cap ($ bn)	6.5
Median Market Cap ($ bn)	1.9
Long equity exposure (% of NAV)	76.8
Short equity exposure (% of NAV)	44.3
Gross exposure (Long + Short) (% of NAV)	121.1
Net exposure (Long - Short) (% of NAV)	32.5

Sector exposure (% NAV)



Geographical exposure (% NAV)



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Main positions

Top 5 long positions	Country	% NAV
Health Care	Ireland	6.88
Information Technology	United States	4.51
Consumer Discretionary	South Korea	3.91
Energy	Monaco	3.81
Consumer Discretionary	Sweden	3.72
	TOTAL:	**22.84**

Top 5 short positions	Country	% NAV
Index	United States	-2.02
Consumer Staples	United States	-1.72
Communication Services	United Kingdom	-1.67
Industrials	France	-1.63
Communication Services	United States	-1.47
	TOTAL:	**-8.52**

Investment manager's commentary

Performance during the second quarter was dominated by a few long positions that didn't cooperate, partially offset by one big takeout. In general, many of the names that had contributed meaningfully in the first quarter, sat on the bench during the second quarter. Part of this was due to a lack of participation from some of markets in Asia where enthusiasm hasn't kept pace with Western markets, and part was stock picking – detailed below. The action on the short side was negligible with nothing exceeding 50 basis points in either direction.

To be continued on the next page.

Fund facts

Fund total net assets: $18.68 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

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

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Our top performer on the long side during the quarter was Array Biopharma which was bought out in June by Pfizer at a~55% premium. Array had been on a winning streak year-to-date and looked pricey, but we maintained a position as sales have been exceptionally strong for their new drug. Fortunately, Pfizer liked it too and paid up to acquire the firm. Evolution Gaming, a market leading Swedish-based provider of live online gaming services also contributed nicely as it has executed ahead of expectations and is now gaining a toehold in the U.S. online gaming market. Our third best performer was Scorpio Tankers, a recent addition benefitting from the IMO 2020 regulations which are set to dramatically change the types of fuels used in shipping. While Evolution is pricey, it has the ingredients to be a long-term compounder. Scorpio, on the other hand, is more a trade with the potential to earn its market cap in a bullish cycle scenario.

Detracting from performance during the quarter were a handful of names which conspired to disappoint at the same time. First up was Zogenix, which made an amateur-hour error in its filing with the FDA. Despite having excellent data on their drug for treating severe seizures in children, they failed to properly package this data (forgetting to “dot the i’s and cross the t’s” won’t fly in an FDA submission). The stock reacted predictably, and we took the loss as a resubmission delays the opportunity and credibility is impaired. Another disappointing performer was Gravity, a Korean-based gaming operator with a white-hot game doing a tremendous amount of business in South East Asia and Latin America. Hopes were high on a further expansion into Japan, but early data suggests the enthusiasm was too great. Additional opportunities exist, including a partnership with Tencent in China. Before factoring in any of this, the stock is on 5x earnings. Mobile gaming is a fickle space, but we’ll take the bet at this valuation. The last detractor was our biggest contributor in the first quarter – Amarin – and its potential supplier Nippon Suisan, both of whom were down a bit, but because of their sizing they made the detractors list.

PORTFOLIO OUTLOOK AND POSITIONING

Geopolitics have been whipping the global markets around for some time now and creating some very strange situations. In bonds, we have entered the Twilight Zone where inversion is now rampant amongst most major sovereigns (historically, a major red flag) and even more eye-popping are yields representing $13 trillion of value which are now at negative levels (history on this goes back to the dark ages and we’ve never seen lower rates than now.) In an extreme example of how strange things have gotten, Austria issued a 100-year bond (due 2117) which is now yielding a whopping 1.2% annual rate – almost guaranteed to be below inflation over that period. And in another bizarre example, the average bank issued certificate of deposit (CD) rate in the U.S. is now substantially below that of comparable U.S. government bonds. In effect, banks are borrowing at a better rate than the U.S. government. In stocks, large, safe companies typically characterized as “compounders” have benefited disproportionately too, as investors are paying a steep premium for safe, steady growth. This is no truer than in big-cap U.S. technology where companies like Microsoft are now trading at over 30x earnings, its highest level in over 15 years and nearly triple its low of 10x earnings reached during 2008-2013.

We have reduced our long Cyclical exposure over the first half of 2019, acknowledging the geopolitical instability and favoring more predictable earnings and growth, a trade that has generally been in-line with consensus. However, we're expressing this with some new names in the portfolio (as featured below) that take advantage of our global strategy & perspective in the small- & mid-cap space. On the long side, there are names that have excellent growth prospects, dominant market positions and high business returns. We also feature one short facing a competitive threat.

During the second quarter we added about 10% to our long exposure in Asia Ex-Japan. This was offset by some slight adjustments in other regions, leading to a modest increase in overall gross and net exposures. This was reflected through an increase in Consumer, Industrial and Technology offset by a decrease in Healthcare. As noted above, the general approach we have taken in this environment is to focus on names that are less likely to be impacted by sudden shifts in geopolitical winds.

INVESTMENTS HIGHLIGHTS

Sunny Friend (Taiwan, ticker: 8341, $1 billion market cap)

Most U.S. investors have heard of Stericycle, a company which treats hazardous waste in the United States. This type of waste is a pain to handle and dispose of properly. Permits, specially trained employees, purpose-built equipment and licensed landfills are among the many requirements for operating one of these businesses. On the other hand, the business is wonderfully predictable with a constant flow of medical waste from hospitals and industrial waste from the likes of semiconductor fabs. The returns are also quite good as barriers to entry are high. Very few companies can navigate the regulatory, licensing and permitting process much less get a treatment center built and operating efficiently. While Stericycle had a great runway 20 years ago, we've found a more compelling company that is treating both medical and industrial waste in Taiwan and China where today's need may dwarf the U.S. opportunity that existed decades ago.

Sunny Friend began with a medical waste facility in Taiwan to deal with the SARS epidemic. They further expanded into medical waste in Beijing and industrial waste in Taiwan – leading to ~50% market share in both geographies. While Taiwan is a small market and not expected to grow too fast in the future, the effort in mainland China has been especially successful. They have helped multiple operators design and develop industrial waste facilities, but the demand has been so great that regional governments have asked Sunny to build, own and operate their own facilities within China. Returns and margins are expected to be at least as good as Taiwan since treatment capacity and landfill capacity is very scarce and many of the customers are foreign companies fearful of violating strict, newly enforced, Chinese regulations. The pipeline of new projects is expected to drive 20%+ revenue growth for the foreseeable future. While the stock trades at a rich multiple of ~24x 2020 earnings, the earnings expansion should drive this down meaningfully within a few years. In a successful scenario, we can justify 50%+ upside as the company builds out capacity in China for years to come.

Dating apps – Match Group (U.S., ticker: MTCH, $20 billion market cap) & Momo Inc (China, ticker: MOMO, $7 billion market cap)

Online dating is not necessarily a new concept – in fact, Match.com has been around since the mid-1990's. However, it has not been truly accepted and embraced until recently, due to the millennial and "Gen Z" generations coming of age and the advent of mobile phone apps. Perhaps what accelerated the adoption of online dating the most was Tinder, which replaced lengthy profiles on a desktop computer with a game-like swiping function to sort through potential partners on one's phone.

Match Group is the largest dating app company in the world. It owns ten different dating websites and apps – including Match.com, Tinder, OkCupid, and Hinge, among others – and has over 8 million paying users across 190 different countries. Just under 5 million of these paying users are attributable to Tinder, which has been integral to Match's growth. Tinder had originally been free to use, but in 2015 launched subscriptions and other paid features, which have gained popularity over the past couple of years. Tinder subscribers have doubled since the end of 2017 as more and more young people decide to pay an average of ~$17 per month to increase their chances of a match.

We recognized a huge opportunity for Match Group to expand in international markets, as other countries are much earlier on in the adoption of online dating than the U.S. has been. However, one country was out of reach for Match, due to its censorship of Western apps: China. This is where Momo comes in. Momo is a Chinese social media company that owns an app called Tantan, which is a near clone of Match's Tinder. We are excited about Momo because Tantan is about three years behind Tinder in its growth trajectory, as it just started offering subscriptions in early 2018. Since we've seen evidence of Tinder's path to monetization, we are confident that the growth is only just beginning for Tantan. In fact, as an illustration of how quickly this business can scale in China, Tantan's 5 million paying users have already surpassed those of Tinder – after just one year.

Though both companies are a bit larger than what we would typically look at, we believe the global opportunity for online dating is vast as the current number of total subscribers is negligible in the context of a market that could be 100's of millions. Moreover, much of this growth will likely come from developing markets where localization is critical, an aspect to this theme that many of our geographically siloed peers may overlook.

Inogen (U.S., ticker: INGN, $1.4 billion market cap)

We are short the U.S.-based portable oxygen (O2) concentrator maker Inogen. This device replaces the green oxygen tanks often seen attached to wheel chairs, for example. The device is battery operated and extracts nitrogen from the air, thereby delivering concentrated oxygen to the user. On the surface, the financials paint the picture of a strong market leader; however, a deeper look into the underlying market, distribution channels, and increasing competition shows a company faced with many challenges and likely to struggle to keep up with lofty expectations.

The first facet is the underlying market for chronic oxygen therapy, typically patients with advanced COPD (an umbrella acronym referring to poorly functioning lungs), which has demonstrated steady growth historically but has slowed in recent years. The estimates of the size and trajectory of the market vary significantly with Inogen citing a market of ~3 million patients and growing in the "low single-digits," which they notably reduced from their standard 7-10% annual market growth expectations earlier this year. Contrasting this view is Medicare data which suggests a market closer to ~1.6 million patients that is declining at 2% annually. Based on a review of the data, demographic trends and other estimates, our view essentially splits the difference between these with the bottom-line being the market is: 1) smaller than Inogen & the Street is using for their estimates and 2) stable at best, but likely to be declining.

Inogen is also facing issues with their sales/distribution model. The largest source of sales is their "business to business" (B2B) channel, principally to home medical equipment (HME) companies. Historically more than 55% of revenue, this segment faces significant headwinds as the market for these devices becomes more competitive. Moreover, many of the larger distributors are built to deliver conventional O2 tanks which requires significant and costly infrastructure (delivery vehicles, employees, warehouses, etc.). However, this investment becomes obsolete when shifting to the O2 concentrators which do not need to be replaced or refilled. These new products lack a recurring revenue component which ultimately hurts the HME's. One of Inogen's largest HME customers announced they are halting their contract with Inogen in 1Q 2019 due to these constraints. As this business model is inherent to most of the HME companies, we expect ongoing pressure on Inogen, something they have also publicly acknowledged.

Competition and pricing pressure will present additional challenges for Inogen. The market for portable O2 concentrators was historically dominated by three companies: Invacare, Chart Industries, and Inogen. However, the competitive landscape has recently changed with Philips (Respironics) making inroads as well as ResMed improving their patient access/product lineup in COPD through the acquisition of Propeller Health last year. All these devices are comparable in function with the key differentiators being price, distribution and bundling. Inogen is a one-trick pony without additional COPD products and their devices are priced anywhere from $500 to $1,000 higher than competitors. As a result, they will face downward pressure on prices, particularly as their premium pricing puts them at risk heading into the insurance bidding season for 2020.

While the stock has fallen by more than 40% this year, we feel there is additional downside given the above factors as well as what we view as aggressive guidance for growth of 30% from both the company and the Street.