ALMA CAPITAL

Alma Apis Global Long/Short Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

apis

As of 30 September 2019

Fund description

- 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	-2.66	2.10
3M	-3.02	-0.03
6M	-4.96	3.59
YTD	5.49	16.20
1Y	-8.37	1.38
Since inception*	-15.42	1.02

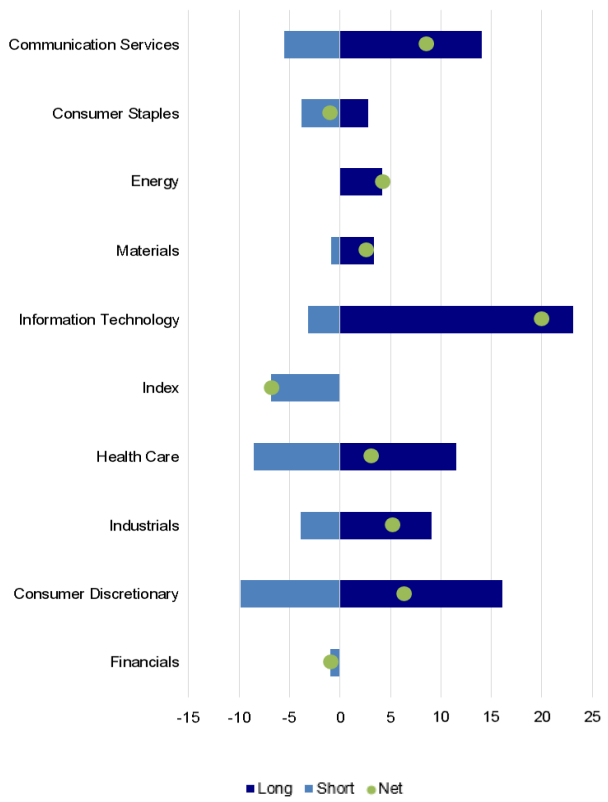
* 17 January 2018

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

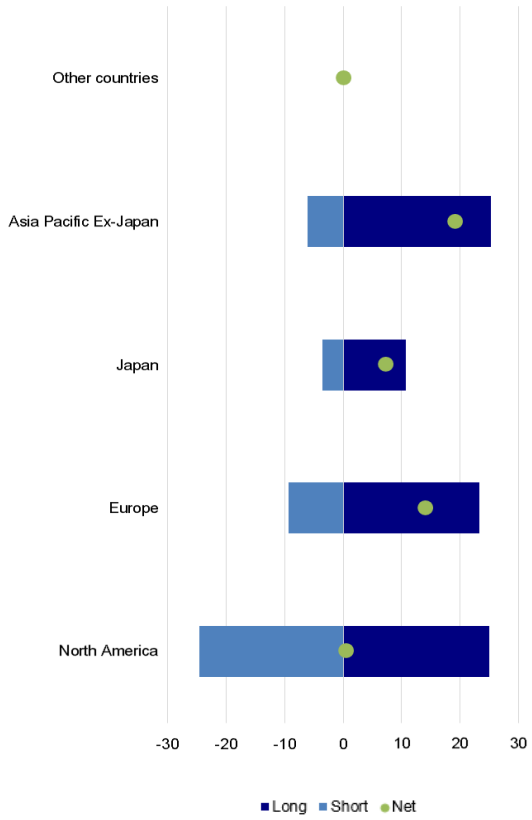
Portfolio characteristics

Number of securities - long book	39
Number of securities - short book	47
Weighted Average Market Cap ($ bn)	7.0
Median Market Cap ($ bn)	2.3
Long equity exposure (% of NAV)	84.2
Short equity exposure (% of NAV)	43.4
Gross exposure (Long + Short) (% of NAV)	127.6
Net exposure (Long - Short) (% of NAV)	40.8

Sector exposure (% NAV)



Geographical exposure (% NAV)



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Main positions

Top 5 long positions	Country	% NAV
Information Technology	United States	6.74
Energy	Monaco	4.18
Industrials	United States	3.88
Consumer Discretionary	Sweden	3.51
Health Care	Ireland	3.41
	TOTAL:	**21.72**

Top 5 short positions	Country	% NAV
Index	United States	-1.94
Index	United States	-1.56
Communication Services	United States	-1.51
Communication Services	United Kingdom	-1.45
Index	United States	-1.36
	TOTAL:	**-7.83**

Investment manager's commentary

Global markets were flat during the third quarter, with downside in August offset by upside in September. Despite a good contribution by the short-side, performance lagged on the long-side. Some of this drag can be attributed to exposures to unfavorable places, such as South Korea, or to our small-capitalization bias, but that responsibility lies more with timing rather than a wrong/broken thesis. If fundamentals continue to move in-line with our expectations, these periods of weakness will be corrected with time.

Although Intelligent Systems performed poorly in September, our largest position was also our biggest contributor in the quarter, adding over 1.8% to the Fund's returns. We continue to believe this small-cap U.S. company (which has no major sell-side coverage or significant institutional investors) will garner more attention near-term. Another solid contributor was Varta of Germany. Varta is the world's leading manufacturer of batteries for hearing aids and is now applying its skills in micro-batteries to the wireless headset market.

To be continued on the next page.

Fund facts

Fund total net assets: $14.15 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

Contacts

Nick Stoop (UK)	+44 77 8980 0397
Baptiste Fabre (FR / IR)	+33 1 56 88 36 55
Hervé Rietzler (FR / CH / LU / IT)	+352 28 84 54 19

info.investors@almacapital.com

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On the downside was Amarin, losing 1.25% in the quarter. While we expect the company to receive a favorable opinion on its Vascepa drug at the end of the year, we've reduced the position going into the event as we prefer to place our bets on the product launch, not FDA decisions which (from experience!) can surprise. One other detractor also worth mentioning was Kindred in Sweden. Kindred is a leading online gambling company focused on "regulated" markets where online gambling is allowed. While regulatory aspects are always evolving (i.e., politicians don't like gambling, but they love the tax revenues that come from it), Kindred struggled to adapt to changes in Sweden and missed estimates – the stock detracted about 0.67% in the quarter. Although visibility is still weak, we continue to hold a reduced position, feeling that the 10 times earnings and 5%+ yield will support the shares. Over the last 10 years, Kindred has adapted to many regulatory shifts yet shown growth in every year and 2019 should be no exception.

As mentioned, short performance was excellent in the quarter. Standout performers were Netflix, GTT Communications, OCI, Wayfair, and Celltrion. Also notable was a good batting average with relatively few losers. Newfound skepticism of high growth momentum unicorns such as Netflix and Wayfair helped returns as investors begin to scrutinize long-term cash flows. Our approach to unicorn-type companies is to hold our fire or keep our shorts very small until both fundamentals and price behavior begin to align. As a result, we don't often catch much if anything of a sudden momentum change like we saw in September. Names like Wayfair or Netflix were already "broke" going into the month – the sudden interest in cash and profits at "WeWork"-like unicorns (which may be only temporary) could be a future goldmine, but we'll wait for more confirmation before getting in too deep.

PORTFOLIO OUTLOOK AND POSITIONING

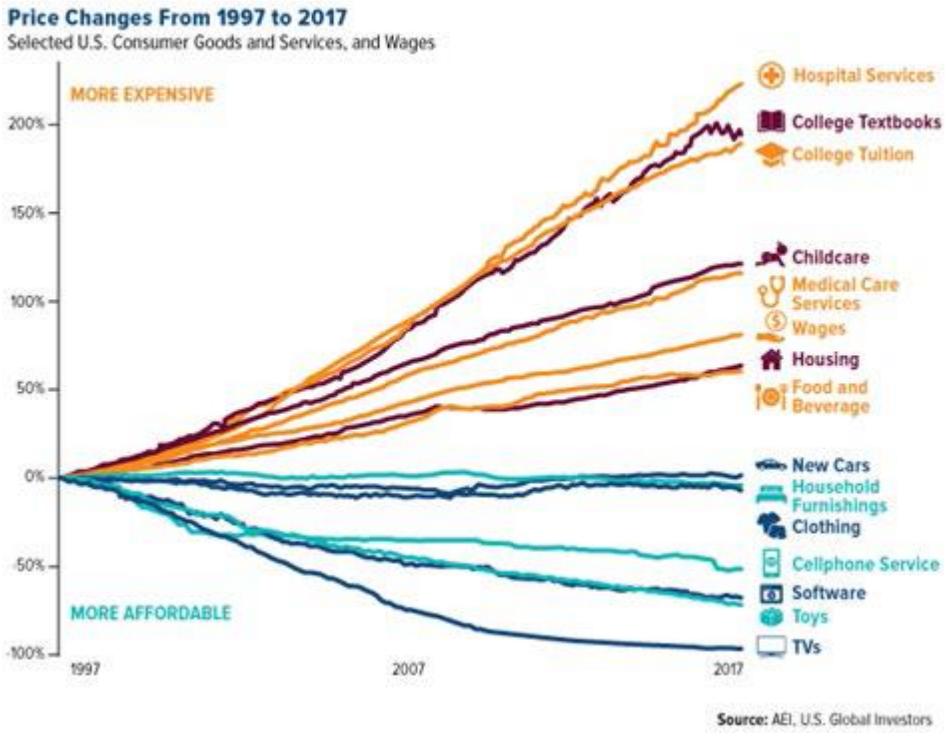
The market trends highlighted in our last letter haven't changed much. Interest rates remain low (or negative) and growth metrics continue to weaken. Manufacturing-based economies such as Germany, South Korea, Japan, etc. are either in, or tipping into, recession. Additionally, services indicators that had previously held up are now beginning to show weakness.

Considering the sluggish (at best) outlook, we have not made significant changes to the portfolio, remaining at the lower- to mid-range of our gross and net positioning overall, while favoring long positions that can do well irrespective of economic direction. On the short side, however, we have highlighted some names we consider to be "analogues." These illustrate competitive dynamics we have previously seen play out in foreign markets but, in the examples below, the locals are lacking this expertise. Our edge as global investors is that we can leverage this global perspective to "connect the dots."

INVESTMENT HIGHLIGHTS

Pearson plc (U.K., ticker: PSON LN, £5.4 billion market cap)

The global perspective that we take in order to gain insights that might otherwise be missed often overlaps with other patterns of insight (aka mental models). One of the most common is when we see a situation in one industry or geography that is analogous to another. A short we've had on for the past year or so fits this model – the company is called Pearson and is a leading provider of textbooks worldwide. Textbooks have been one of the most inflationary consumer items on the market rising nearly 3 times faster than the inflation rate (see illustration below).



The industry is dominated by three publishers: McGraw-Hill, Cengage (formerly Thomson Learning) and Pearson. For years, these companies have relentlessly raised prices, driving individual texts as high as $100 and more. The last 3- to-5 years have witnessed a revolt by students, which has led to a large secondhand market, the introduction of book rentals, rampant photocopying, sharing of login details for online books, and general efforts to cheat the system. As a result, these publishers have been suffering financially with shrinking margins and revenue. Cengage, with a heavily indebted balance sheet and lacking the quarterly pressures of a public company, decided to embrace an "all-you-can-eat" model in order to forgo price in favor of market share. Students pay a flat fee for a semester which allows them access to any one of Cengage's tens-of-thousands of books online. It has worked and Cengage attracted 1 million subscribers within the first 6 months.

From the student's perspective, this is a savings windfall if they are able to use Cengage's books across multiple classes. Consider the value proposition: the average student spends $579 per semester on books, as compared to Cengage's offering of $120 per semester for any number of books in their catalog. The incumbent publishers have had two very different reactions. McGraw Hill announced a merger with Cengage in May of 2019 (if you can't beat them, join them!); the combined company will have 49% market share. Meanwhile, Pearson has taken the opposite view and been largely dismissive of Cengage's new business model – preferring to grind it out with their historical strategy.

Many will remember a time when watching a movie at home required a physical DVD (or even a VHS tape.) These items were expensive to purchase and possessed some of the same inherent characteristics of a book – cheap to produce, easily reusable, easily copied, etc. The dominant operator of these movie rentals at the time was Blockbuster (a short we had many years ago) who operated on a $-per-rental model. Along came Netflix with a subscription all-you-can-eat model and the rest is history. There was a bit more to the story though; Blockbuster did ultimately capitulate to Netflix's business model and tried to join the party with a similar all-you-can-eat proposal, but it was too little, too late. Pearson is unlikely to face an identical fate to Blockbuster as there are some natural moats around the business and stickiness with the customers. However, severe price compression is highly likely and that will have a meaningfully negative impact on Pearson's profits. Pearson is a £5.4 billion market cap company listed in the U.K., trading on 12 times Street earnings. However, we think these earnings are structurally impaired for the foreseeable future and will negatively surprise investors, potentially by a significant margin.

Albermarle Corporation (U.S., ticker: ALB US, $6.7 billion market cap)

Another type of situation that we often see when looking across the globe is when a company is covered by sell-side analysts who may not realize that the industry is different than what they are typically assigned. This appears to be the case with a short we currently are involved in named Albermarle.

Our history with Albermarle goes way back when the company was largely a specialty chemical producer of catalysts sold to oil refineries along with fire retardants. While these businesses have been solid performers, the real excitement came after an acquisition in the lithium market, propelling Albermarle to become a top lithium producer worldwide. Specialty chemical analysts continued to publish materials and treat Albermarle as a specialty chemical company, which typically trade at premium multiples near 10 times cash earnings. These analysts have assigned over half of Albermarle's valuation to its lithium business. Specialty chemical businesses warrant these premiums because they generally operate in niche, high barrier-to-entry markets where the threat of competition is muted, and investment returns can sustain at high levels. Lithium, on the other hand, is a mined product not unlike many other basic commodities and these typically trade at half the multiple of specialty chemical businesses or even lower. Lithium is a highly cyclical commodity which can whipsaw in price based on slight changes in supply and demand. The dream for lithium is, of course, electric vehicle adoption, but this type of commodity hype is not unprecedented (e.g., rare earth metals or uranium) and one must look no further than the 40+ companies that are now in the process of developing new lithium supplies to see that the barriers are rather low.

Prices have already begun to fall for lithium and production targets are being curtailed, but we see further drops as the price for lithium is still well above the projected cost for many of these hopeful new entrants.

A similar dynamic played out for us a few years back with a long holding named Siltronic. Siltronic was a silicon wafer manufacturer tied to the technology industry and it was spun out of a large specialty chemicals company named Wacker Chemie in Germany. The analyst community that adopted coverage of Siltronic was the same group that covered Wacker Chemie. This created a great opportunity to buy Siltronic cheaply as the analysts badly underestimated the severity of the downcycle and subsequent dramatic recovery in Siltronic's market for wafers. Earnings estimates reflected a mild improvement in sales and margins not unlike what a specialty chemical business might experience. Having talked to Siltronic's Asian competitors, analyzed historical wafer cycles and talked to experienced technology analysts, we could see a very different outcome for Siltronic – and importantly, we understood why the local analyst community did not. We think a similar dynamic is setting up for Albermarle.