Alma Hotchkis & Wiley US Large Cap Value Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

As of 31 December 2018

Fund description

- Investment objective: seek current income and long-term capital growth by investing in a concentrated portfolio of large US companies
- Investment process: analyse long term company fundamentals through in-house bottom-up research aiming to identify undervalued stocks
- The fund typically holds 40 to 60 securities and generally invests in companies with a market capitalization above $3 billion
- Benchmark: Russell 1000 Value Index

Investment manager: Hotchkis & Wiley Capital Management, LLC

- Hotchkis & Wiley is an SEC-regulated, Los Angeles-based investment adviser founded in 1980, specialised in US value equity and US high yield bond strategies.
- Interests aligned with investors: employee owned firm – 21 of the investment professionals own equity
- George Davis, the CEO of Hotchkis & Wiley and senior portfolio manager of the fund, has over 30 years of investment experience. He coordinates the day-to-day management of around $27 billion of equity value assets
- Hotchkis & Wiley manage $27 billion

Cumulative performance (%)

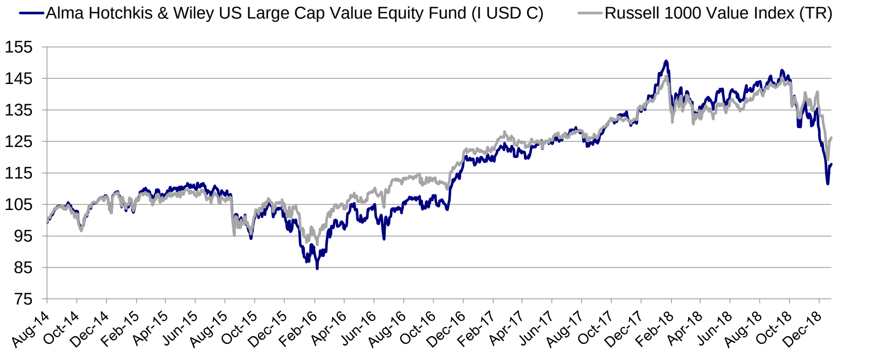
	1 M	3 M	6 M	YTD	1Y	3Y	ITD
I USD C shares	-12.09	-18.44	-14.72	-15.03	-15.03	19.49	17.79
R USD C shares	-12.10	-18.45	-14.74	-15.08	-15.08		
Russell 1000 Value Index (TR)	-9.60	-11.72	-6.69	-8.27	-8.27	22.35	26.19

Fund launched on 6 August 2014

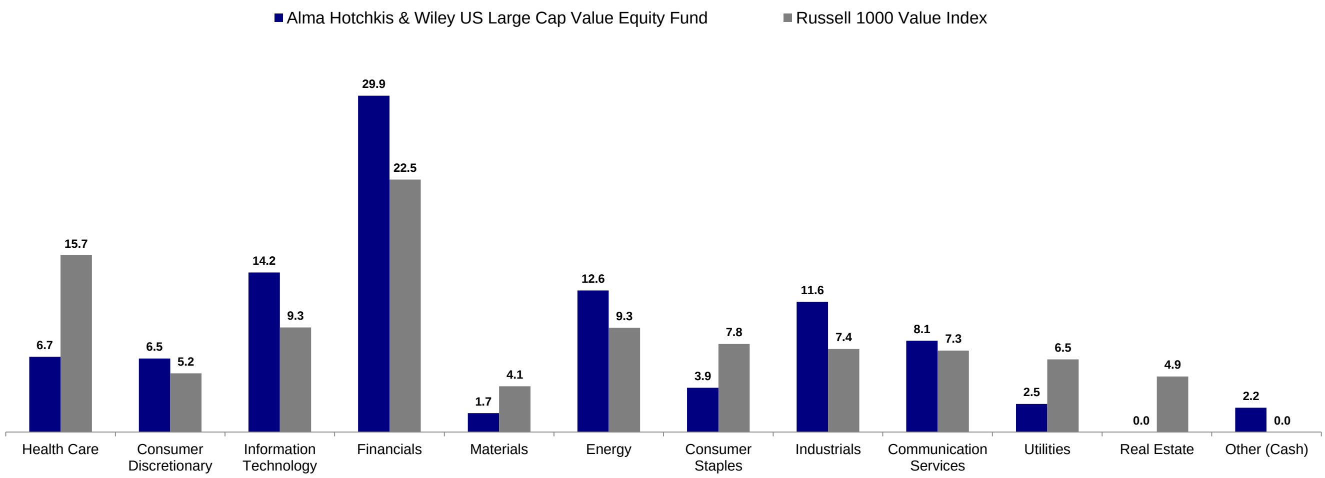
Portfolio characteristics

Main indicators	Fund	Index
No. of securities	52	724
Weighted Average Market Cap ($ bn)	84.5	111.8
Median Market Cap ($ bn)	28.5	8.3
Projected P/E Ratio	9.2x	12.4x
Price / Normal Earnings	7.2x	13.1x
Price / Book	1.3x	1.8x
Price / Sales	0.9x	1.4x
Projected EPS Growth	5.5x	5.4x
Active share (%)	84.4	-

Performance (Indexed - Base 100)



Sector breakdown (% NAV)



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Top 10 positions details

Security name	Sector	% NAV
AMERICAN INTERNATIONAL GROUP	Financials	5.37
HEWLETT PACKARD ENTERPRISE	Information Technology	4.10
CITIGROUP INC	Financials	3.98
WELLS FARGO & CO	Financials	3.90
GENERAL ELECTRIC CO	Industrials	3.47
ORACLE CORP	Information Technology	3.19
GENERAL MOTORS CO	Consumer Discretionary	3.18
GOLDMAN SACHS GROUP INC	Financials	2.97
MICROSOFT CORP	Information Technology	2.78
DISCOVERY INC-C	Communication Services	2.65
	TOTAL:	**35.59**

Investment manager's commentary

Market Commentary

The S&P 500 Index was up more than +10% through the first nine months of the year before posting its worst calendar quarter in 7 years, falling -13.5% in Q4. The end result was a -4.4% return for calendar year 2018. Until the most recent quarter, robust corporate earnings growth had overcome political unrest across the globe. In the fourth quarter, however, ongoing trade tensions came to the forefront. Markets began pricing in slowing economic growth in several major economies that are important trading partners with the US. In contrast to this however, real GDP growth in the US was a healthy +3.4% in the most recent quarter and the unemployment rate remains below 4%. Both the Federal Reserve and the European Central Bank implemented and spoke of future restrictive monetary policy. This appears to have added to equity investor apprehension. The forward P/E ratio for the S&P 500 declined from 20.0x at the beginning of the year to 15.4x at the end of the year. The index's median P/E since 1990 is 16.4x, so it went from well above average to comfortably below average over the course of the year.

Fears that slowing economic growth would weaken demand weighed heavily on oil prices. WTI crude closed the year at $45/barrel, down 25% from the beginning of the year ($60) and more than 40% from its early October high ($76). Commodity securities were among the worst-performers of the year, with the energy (-18%) and materials sectors (-15%) leading the decline. Industrials and financials, also cyclical sectors, each declined -13% and lagged the market by a wide margin. The non-cyclical healthcare and utilities sectors performed best, returning +6% and +4% during the year, respectively. The performance dispersion and resulting valuation differentials among stocks that are economically sensitive compared to those that are not suggests the market has begun to price in a recession scenario. Economic metrics do not yet verify a meaningful change from positive economic growth. At present, while acknowledging the uncertain economic outlook, we view the valuation support of cyclical stocks as vastly superior to non-cyclicals. This valuation discrepancy provides a margin of safety in the long run almost irrespective of near term economic growth.

To illustrate the stark contrast in valuation between sectors, consider banks relative to utilities. Five years ago, S&P 500 banks traded at 12.5x consensus earnings while S&P 500 utilities traded at 15.5x. Since then, bank earnings have grown 53% compared to 36% for utilities, but bank stocks have lagged utility stocks. Utilities' total return outpaced its earnings growth considerably, while banks' total return lagged its earnings growth substantially. As a result, bank P/Es compressed while utility P/Es expanded. Today, S&P 500 banks trade at just 9.9x consensus earnings while S&P 500 utilities trade at 17.1x. This translates into an earnings yield of more than 10% for banks and just 5.8% for utilities—a rich valuation for an industry with modest growth prospects.

The valuation disparities among sectors has led to the portfolio's largest sector deviations from the benchmark since the financial crisis. Accordingly, the portfolio trades at a substantial valuation discount to the index, which makes us optimistic about its prospects irrespective of market direction or temperament. The portfolio trades at 7.3x normal earnings compared to 13.1x for the Russell 1000 Value and 16.1x for the S&P 500. The portfolio's price-to-book ratio is 1.3x compared to 1.8x and 2.9x for the Russell 1000 Value and the S&P 500, respectively.

Attribution: 2018

The Fund underperformed the Russell 1000 Value Index in 2018. The portfolio's valuation multiples are lower than that of the index, which hurt relative performance over the course of the year as value lagged growth. For example, 65% of the portfolio was invested in stocks with a price-to-book ratio of less than 2x compared to about 41% for the Russell 1000 Value. This overweight, and corresponding underweight to more richly-valued securities, caused more than two-thirds of the underperformance in the year. Stock selection in financials and consumer discretionary, along with the underweight position in healthcare also detracted from performance. The overweight position and positive stock selection in technology, along with positive stock selection in consumer staples helped relative performance. The largest detractors to relative performance were AIG, Adient, Vodafone, Apache, and Citigroup; the largest positive contributors were Ericsson, Microsoft, Discovery, Hewlett Packard Enterprise, and ARRIS International.

Largest New Purchases: 2018

AXA Equitable Holdings is a large domestic life insurance company that underwrites and distributes annuities, retirement products, life insurance, and asset management services. It owns a 65% economic interest in AllianceBernstein, a full service, global asset manager that serves both retail and institutional clients. As one of the largest sellers of variable annuities in the US, annuities account for more than 50% of the company's earnings. AXA is well capitalized and is expected to return a significant amount of its earnings to shareholders. Further, the company trades at a very low level of normalized earnings, both on an absolute basis and relative to peers.

General Electric has leading positions in power turbines, jet engines, diesel locomotives, and diagnostic imaging systems. The stock trades at an attractive valuation considering it has a high quality set of businesses with interesting future prospects. Shares have underperformed due to disappointing earnings in its power business, weak corporate cash flow, and concerns about its balance sheet. While the power business is earning returns below normal and it will face ongoing challenges in the near term, its earnings decline is more than reflected in its current share price. The market also misses that GE has great market positions in its aviation, healthcare, and other businesses, with a dominant installed base to service and sell equipment. Concerns about its balance sheet are overblown because the company has significant liquidity and assets worth well in excess of the company's debt levels.

Southern Company is a utility holding company with a history of constructive regulatory relationships and operational execution that has facilitated better than average ROEs on its regulated rate base. It is an attractively valued stock relative to peers, supported by a stable business, has a high dividend yield, and is a diversifying portfolio position.

Fund facts

Fund total net assets: $77.11 M

Base currency: USD

Fund domicile: Luxembourg

Fund type: UCITS SICAV

Management fee: 0.75% p.a.

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

Dealing: Each day with a 1-day notice. Cut-off time : 5 pm CET

Management company: Alma Capital Investment Management (LU)

Investment manager: Hotchkis & Wiley Capital Management, LLC (US)

Fund managers: George Davis, Scott McBride, Judd Peters, Patty Mckenna, Patrick Meegan

Countries where the fund is registered:
France, Germany, Luxembourg, Switzerland, United Kingdom, Austria

Institutional USD Capitalisation share class
Isin: LU0963547111 Ticker: ALDCPBI LX Launch: 6 August 2014

Retail USD Capitalisation share class
Isin: LU0963547970 Ticker: ALDCBRU LX Launch: 21 November 2017

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