ALMA CAPITAL

Alma Hotchkis & Wiley US Large Cap Value Equity Fund

Hotchkis & Wiley

A sub-fund of Alma Capital Investment Funds SICAV

As of 28 June 2019

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 strategy mirrors the Large Cap Fundamental Value strategy managed by the Investment manager since 1980

Investment manager: Hotchkis & Wiley Capital Management, LLC

- Hotchkis & Wiley is an SEC-regulated, Los Angeles-based investment adviser founded in 1980, specialised in value equity and high yield bond strategies
- Employee owned firm: 90% of the investment team and 67% of all employees own equity
- Investment team has over 23 years average investment experience and 15 years average tenure at Hotchkis & Wiley
- Hotchkis & Wiley manages $31 billion

Cumulative performance (%)

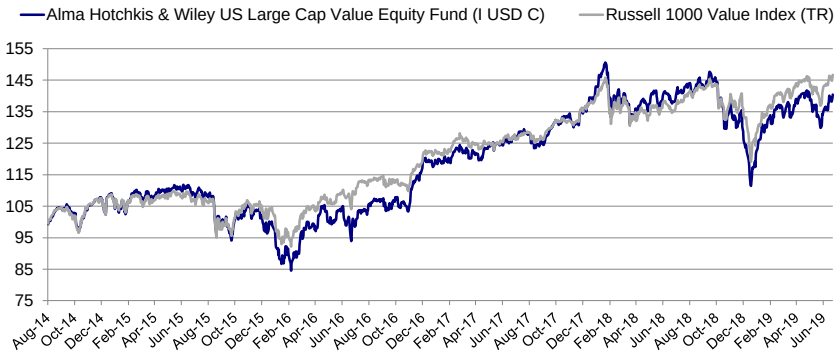
	1 M	3 M	6 M	YTD	1Y	3Y	ITD
I USD C shares	8.11	4.36	19.21	19.21	1.66	39.38	40.42
R USD C shares	8.12	4.35	19.20	19.20	1.63		
Russell 1000 Value Index (TR)	7.18	3.84	16.24	16.24	8.46	33.79	46.68

Fund launched on 6 August 2014

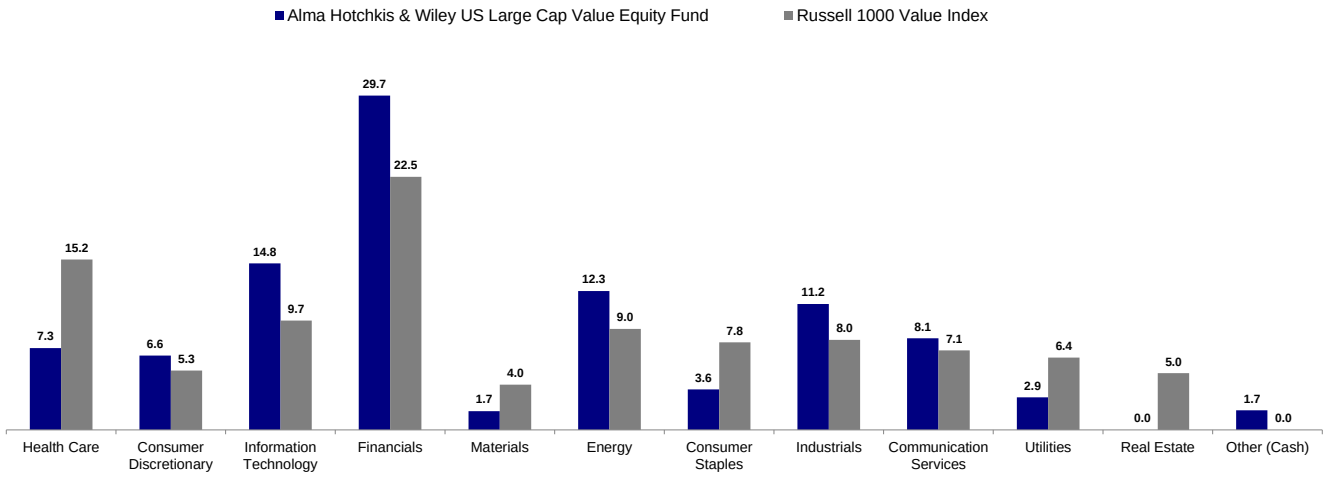
Portfolio characteristics

Main indicators	Fund	Index
No. of securities	50	722
Weighted Average Market Cap ($ bn)	115.1	123.3
Median Market Cap ($ bn)	37.1	9.7
Projected P/E Ratio FY2 (x)	11.0	13.7
Price / Normal Earnings (x)	8.5	14.8
Price / Book (x)	1.5	2.1
Price / Sales (x)	1.1	1.6
Projected EPS Growth (%)	5.9	5.5
Active share (%)	83.0	-

Performance (Indexed - Base 100)



Sector breakdown (% NAV)



Alma Hotchkis & Wiley US Large Cap Value Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

ALMA CAPITAL

Hotchkis & Wiley

Top 10 positions details

Security name	Sector	% NAV
AMERICAN INTERNATIONAL GROUP	Financials	4.86
WELLS FARGO & CO	Financials	4.56
GENERAL ELECTRIC CO	Industrials	4.42
CITIGROUP INC	Financials	4.24
MICROSOFT CORP	Information Technology	4.14
GOLDMAN SACHS GROUP INC	Financials	3.63
GENERAL MOTORS CO	Consumer Discretionary	3.17
HEWLETT PACKARD ENTERPRISE	Information Technology	3.05
DISCOVERY INC-C	Communication Services	2.77
ORACLE CORP	Information Technology	2.68
	TOTAL:	**37.52**

Investment manager's commentary

Market:

The S&P 500 Index returned +4.3% in the second quarter and is now up +18.5% since the beginning of the year, fully recouping its losses from the fourth quarter of 2018. An increasingly dovish tone from the US Federal Reserve contributed to positive equity markets, as Chairman Jay Powell indicated a readiness to lower interest rates for the first time in more than a decade. The Federal Funds futures market is pricing in a high likelihood of a rate cut during the Fed's next meeting. In addition, geopolitical tensions subsided, as the US reached a deal with Mexico to halt proposed tariffs, and US-China trade talks resumed. All S&P sectors were positive except energy, as crude oil prices declined by 3% in the quarter. Growth again outpaced value, further widening the valuation gap. Over the past five years, the Russell 1000 Growth Index has more than doubled the Russell 1000 Value Index, returning +87% compared to +43%, cumulatively.

We continue to view the overall equity market as about fairly valued, perhaps slightly overvalued. However, this is far from a normal market. On the one hand, the market's valuation suggests that investors have a reasonably healthy risk appetite. On the other hand, certain attributes imply that investors are exceptionally risk averse. A glaring example outside of US equity markets is the negative yield on some country's government debt (e.g. German bunds), where investors are guaranteed to lose money if held to maturity. A preference for a small, yet certain loss over a wider range of outcomes exemplifies extreme risk aversion. This risk aversion is borne out in US equity markets through a comparison of different sectors. Sectors with low economic sensitivity and stable earnings streams have been flooded with capital while cyclical sectors have been shunned, irrespective of valuation. Regulated utilities, for example, are largely insulated from economic slowdowns and exhibit more stable earnings than most other businesses. This has appealed to risk averse equity investors, which have flooded the sector with capital. As a result, utilities' P/E multiples are now close to 20x, an increase of 20% over the past five years. We view this as a rich price to pay for a sector with modest prospects for growth, and do not view this as a safe investment. While it does not represent a certain loss, the long-term upside potential at these valuations are paltry at best. Most REITs, consumer staples, and healthcare companies exhibit a similarly unappealing long-term risk-reward tradeoff.

In many cases, banks and other financials trade at half the valuation of the non-cyclical markets segments. Select companies within technology, industrials, and energy also trade at substantial discounts to their intrinsic values. These sectors have a higher correlation with economic cycles than non-cyclicals, but valuations render the long-term prospects more appealing irrespective of near-term economic growth. Also, we have a deep-rooted preference for strong balance sheets, which provides a form of protection should the macro environment take a turn for the worse. In our view, this combination represents a considerably less risky investment—and one with considerably more upside potential.

The wide dichotomy between undervalued and overvalued pockets of the market has facilitated a portfolio that trades at a large valuation discount to the market, in our view, without assuming undue risk. The portfolio trades at 8.6x normal earnings compared to 14.8x for the Russell 1000 Value Index and 24.4x for the Russell 1000 Growth Index. It trades at 1.5x book value compared to 2.1x and 6.9x for the value and growth indices, respectively. This valuation discount combined with healthy balance sheets and good underlying businesses has us confident about the portfolio's prospects as we look forward.

Fund:

The portfolio outperformed the Russell 1000 Value Index in the second quarter of 2019. The overweight position and positive stock selection in financials was the largest positive contributor during the quarter. Positive stock selection in consumer discretionary, consumer staples, and technology also helped performance. The overweight position and stock selection in energy was the largest performance detractor in the quarter, along with stock selection in materials and healthcare. The largest positive contributors to relative performance in the quarter were AIG, Adient, Microsoft, Citigroup, and Discovery; the largest detractors were Apache, Marathon Oil, State Street, National Oilwell Varco, and Murphy Oil.

Fund facts

Fund total net assets: $94.59 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

Contacts

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

info.investors@almacapital.com