ALMA CAPITAL

# Alma Hotchkis & Wiley US Large Cap Value Equity Fund

Hotchkis & Wiley

## A sub-fund of Alma Capital Investment Funds SICAV

## As of 31 December 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 a 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
- George Davis, the CEO of Hotchkis & Wiley and senior portfolio manager of the fund, has over 30 years of investment experience.
- Hotchkis & Wiley manages $34 billion

### Cumulative performance (%)

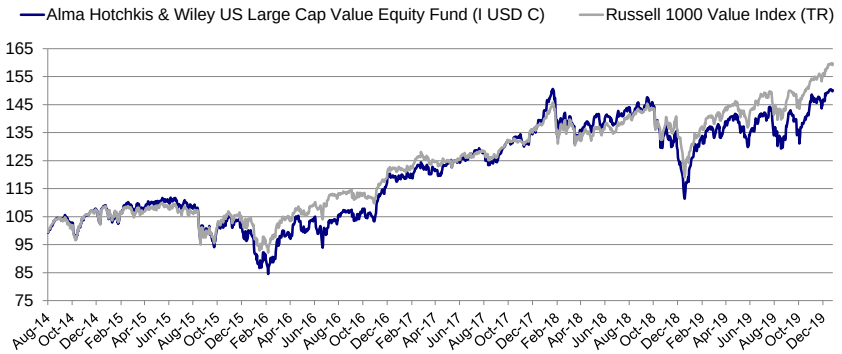
| | 1 M | 3 M | 6 M | YTD | 1Y | 3Y | ITD | ITD (annualized) |
|---|---|---|---|---|---|---|---|---|
| **I USD C shares** | 2.36 | 7.46 | 6.93 | 27.47 | 27.47 | 27.82 | 50.14 | 7.81 |
| **R USD C shares** | 2.36 | 7.46 | 6.93 | 27.46 | 27.46 | | | |
| **Russell 1000 Value Index (TR)** | 2.75 | 7.41 | 8.86 | 26.54 | 26.54 | 31.94 | 59.69 | 9.04 |

Fund launched on 6 August 2014

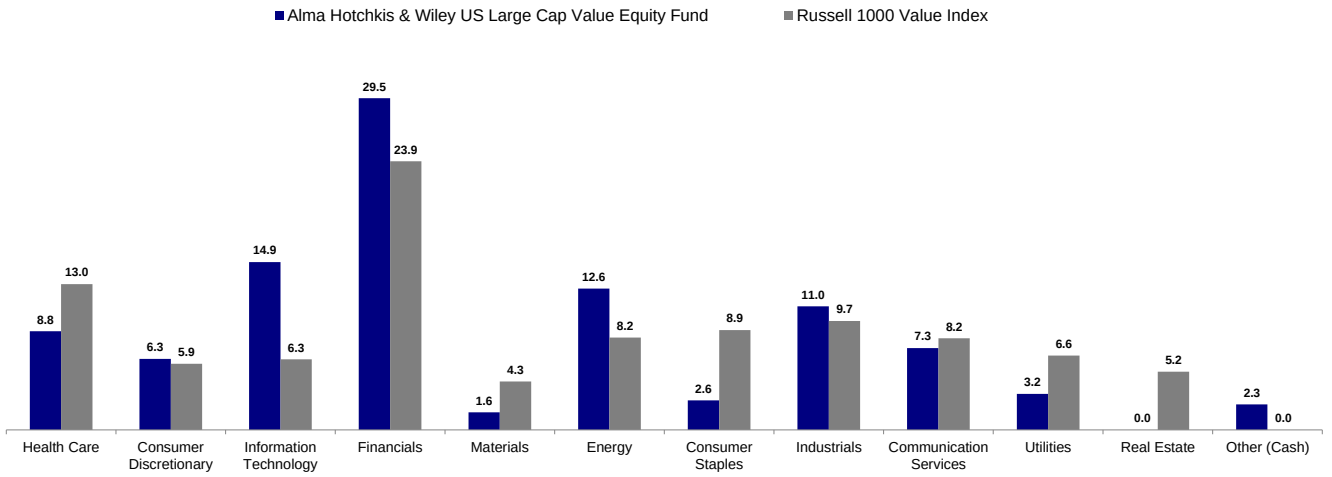
### Portfolio characteristics

| Main indicators | Fund | Index |
|---|---|---|
| No. of securities | 52 | 764 |
| Weighted Average Market Cap ($ bn) | 135.0 | 123.6 |
| Median Market Cap ($ bn) | 33.4 | 9.9 |
| Projected P/E Ratio FY2 (x) | 12.1 | 15.1 |
| Price / Normal Earnings (x) | 8.9 | 15.4 |
| Price / Book (x) | 1.6 | 2.1 |
| Price / Sales (x) | 1.1 | 1.6 |
| Projected EPS Growth (%) | 5.9 | 5.7 |
| Active share (%) | 87.4 | - |

### Performance (Indexed - Base 100)




### Sector breakdown (% NAV)



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### Top 10 positions details

| Security name | Sector | % NAV |
|---|---|---|
| GENERAL ELECTRIC CO | Industrials | 5.04 |
| WELLS FARGO & CO | Financials | 4.64 |
| AMERICAN INTERNATIONAL GROUP | Financials | 4.56 |
| MICROSOFT CORP | Information Technology | 4.53 |
| CITIGROUP INC | Financials | 3.60 |
| GOLDMAN SACHS GROUP INC | Financials | 3.46 |
| ORACLE CORP | Information Technology | 3.45 |
| GENERAL MOTORS CO | Consumer Discretionary | 3.02 |
| COMCAST CORP-CLASS A | Communication Services | 2.57 |
| CORNING INC | Information Technology | 2.43 |
| | **TOTAL:** | **37.31** |

### Investment manager's commentary

**Market:**

For much of calendar year 2019, the United States engaged in a trade war with its largest global trading partner. Near the end of the year, the House of Representatives impeached the President for just the third time in history. US equity markets shrugged off the tumultuous political environment and the S&P 500 Index returned an impressive +31.5%; there have been only 16 calendar years since 1926 that have been better. The economy has been supportive with real GDP modestly positive, inflation range-bound around 2%, and unemployment at a 50-year low.

The S&P 500's forward P/E ratio went from 15.4x at the beginning of the year to 19.8x at the end of the year; the 28% multiple expansion explains nearly all of the market's performance. The market's average P/E over the past 30 years is 17.1x, so it went from about 10% below average to about 15% above average over the course of the year. Importantly, however, interest rates are considerably lower than they have been for most of that period—the 10-year treasury yield is just 1.9% compared to its 30-year average of 4.4%. Technology was the top-performing sector by a large margin, returning +50% over the 12 months. Energy was the worst-performing sector for the third year in a row, returning +12%. All other S&P 500 sectors returned between +20% and +33%.

For the third year in a row, the Russell 1000 Growth Index outperformed the Russell 1000 Value Index (+36.4% vs. 26.5%). Growth outperformed value in 7 of the last 10 calendar years with cumulative outperformance of more than 100% (+312% vs. +205%, or +15.2% vs. +11.8% annualized), nearly all of which occurred in the last three years. The lopsided performance has resulted in a wider-than-normal valuation spread between growth and value. Over the past 25 years, the average forward P/E for the Russell 1000 Growth has been 20.2x compared to 15.0x for the Russell 1000 Value, which represents an average valuation spread of 5.2x. As of 12/31/19, the forward P/E for the growth and value indices were 25.6x and 16.6x, respectively, or a spread of 9.0x. This valuation gap has only been wider 7% of the time, all of which came during the tech/internet bubble from 1999 to 2001. Using price-to-book instead of price-to-earnings, the current valuation gap has been exceeded only 1% of the time historically, with the tech/internet bubble again representing the lone exception.

Investors' increasing preference for low stock price volatility explains at least a portion of the valuation gap's widening. The S&P 500 Low Volatility Index is composed of the 100 index stocks that exhibited the lowest volatility in the previous 12 months (i.e. the least volatile quintile of the S&P 500). Over the last decade, the low volatility index's forward P/E averaged about 1.0x multiple points higher than the broad index (18.8x vs. 17.8x). The average premium over the first 8 years was 0.4x multiple points, however, while the average premium over the last 2 years was 3.1x multiple points (the spread as of 12/31/19 was also 3.1x). This has caused a substantial divergence between certain industries whereby many non-cyclicals exhibit rich risk-adjusted valuations relative to their cyclical counterparts. As an example, the forward P/E ratio for S&P 500 utilities has risen by more than 60% over the last decade; the forward P/E ratio for S&P 500 banks has fallen by 5% over the same period. We have nothing against utilities, consumer staples, or REITs, other than the seemingly high prices currently required to purchase them.

While the overall equity market appears fully valued compared to history, we believe the valuation disparities across the market create an investment environment highly conducive to long-term focused active management, particularly in relative terms. The spread between the growth and value indices is wide, suggesting a promising outlook for value. The spread between the portfolio and the value index is also wide, suggesting a promising outlook for the portfolio. The portfolio trades at 8.9x normal earnings (historical average of 9.3x) compared to the Russell 1000 Value at 15.4x (historical average of 13.4x) and the Russell 1000 Growth at 26.6x (historical average of 19.5x). The considerable valuation advantage combined with good underlying businesses and healthy balance sheets leaves us confident about the portfolio's prospects, particularly compared to passive alternatives.

**Attribution: 2019**

The portfolio outperformed the Russell 1000 Value Index in 2019. Positive stock selection across a broad array of sectors caused the outperformance in the year; stock selection in financials, healthcare, industrials, utilities, and energy each contributed in a meaningful way. The overweight exposure to technology and the underweight exposure to healthcare also helped. Negative stock selection in technology and communication services, along with the overweight position in energy were the largest performance detractors in the year. The largest positive contributors to relative performance over the year were Microsoft, General Electric, Citigroup, Hess, and AIG; the largest detractors were Corning, Marathon Oil, Vodafone, National Oilwell Varco, and Apache.

**Largest New Purchases: 2019**

UnitedHealth Group (UNH) is the largest and most diversified managed care organization in an industry where scale is a significant competitive advantage. UNH has the largest and fastest growing share in Medicare Advantage, the biggest opportunity in managed care. UNH is also well positioned in Medicaid, another growth opportunity. UNH is a high quality business with above average growth prospects, sticky and stable earnings, and a good balance sheet.

Halliburton (HAL) is a leading diversified provider of oilfield services with leading market share in most of its North American product/service lines. The downturn in energy prices has reduced oilfield activity below sustainable levels, hurting Halliburton's sales and profitability. As activity rebounds, the majority of its product lines should experience significant increases in volumes and pricing. Furthermore, Halliburton's scale advantage and vertical integration in North American pressure pumping should allow it to earn attractive returns even when marginal competitors are struggling to earn their cost of capital.

### Fund facts

**Fund total net assets:** $67.83 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


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