FOR PROFESSIONAL INVESTORS ONLY

Alma Recurrent Global Natural Resources Fund

ALMA CAPITAL

RECURRENT INVESTMENT ADVISORS

A sub-fund of Alma Capital Investment Funds SICAV

As of 30 November 2018

Fund description

- Investment objective: the fund seeks total return by investing in global natural resource-related companies.
- Typical industries in which the fund invests: energy, basic materials, infrastructure, transportation and logistics
- The fund may invest in companies of any market size capitalization, including IPOs
- The investment process incorporates macroeconomic and commodity supply/demand factors with fundamental company analysis

Investment manager: Recurrent Investment Advisors, LLC (US)

- Recurrent Investment Advisors is focused on understanding and profiting from commodity cycles to make differentiated natural resource investments
- Formed in April 2017. Registered as an investment adviser with the U.S. Securities and Exchange Commission (SEC)
- Primarily owned by its co-founders Mark Laskin and Bradley Olsen, who both have extensive experience in finance and energy
- Based in Houston, Texas (US)

Cumulative performance (%)

	1 M	3 M	6 M	YTD	1Y	3Y	ITD
I EUR C shares	-4.79	-8.66	-	-	-	-	-10.91
I USD C shares	-4.78	-10.90	-	-	-	-	-13.50
Index*	-3.62	-9.31	-	-	-	-	-11.37

Fund launched on 29 June 2018

*S&P Global Natural Resources Net Total Return Index

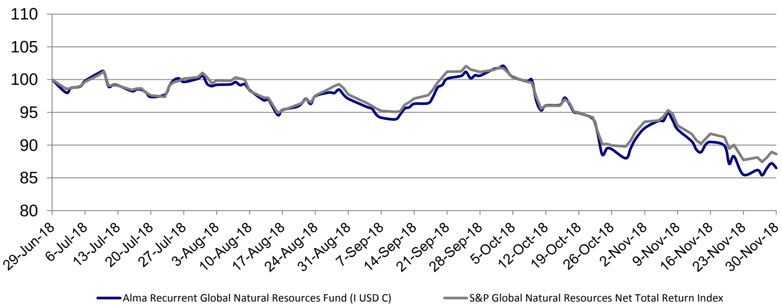
Portfolio characteristics

Main indicators	Fund	Index*
No. of securities	40	90
Estimated Price/Earnings	11.4x	12.3x
Estimated Long Term Growth	8.8x	4.0x
Price to Book Ratio	1.4x	1.4x
Price to Sales Ratio	1.3x	0.8x
Weighted Average Market Cap ($ bn)	46.6	68.7
Median Market Cap ($ bn)	14.5	17.3
Active Share (%)	56.5	-

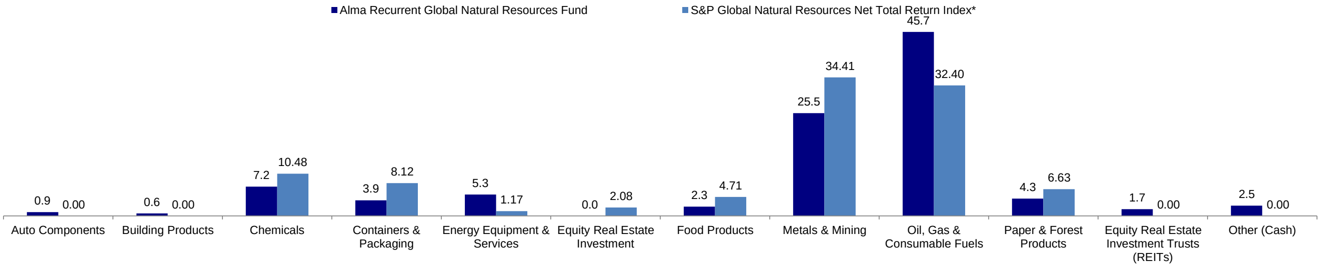
*S&P Global Natural Resources Net Total Return Index

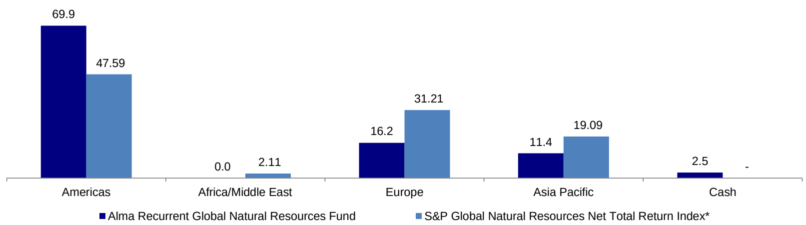
Except number of securities, using "SPDR S&P GLOBAL NATURAL RESOURCES ETF" as a proxy

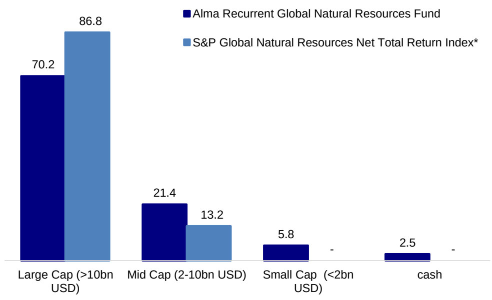
Performance (Base 100)



Industry, region and market cap breakdown (% NAV)







*Using "SPDR S&P GLOBAL NATURAL RESOURCES ETF" as a proxy

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Top 10 positions details

Security name	Industry	Country	% NAV
NUTRIEN LTD	Chemicals	Canada	4.36
FORTESCUE METALS GROUP LTD	Metals & Mining	Australia	4.31
ENERGY TRANSFER LP	Oil, Gas & Consumable Fuels	United States	4.31
TOTAL SA-SPON ADR	Oil, Gas & Consumable Fuels	France	4.25
EXXON MOBIL CORP	Oil, Gas & Consumable Fuels	United States	4.15
GLENCORE PLC	Metals & Mining	Switzerland	4.02
VALE SA-SP ADR	Metals & Mining	Brazil	3.73
BARRICK GOLD CORP	Metals & Mining	Canada	3.61
HALLIBURTON CO	Energy Equipment & Services	United States	3.52
UPM-KYMMENE OYJ	Paper & Forest Products	Finland	3.46
		TOTAL:	**39.70**

Investment manager's commentary

Performance Review

During the month of November, the Alma Recurrent Global Natural Resources strategy fell by (4.8%), compared to the S&P Global Natural Resources Index's (3.4%) return. Oil's 22% decline drove down independent E&Ps such as Oasis Petroleum (OAS), Cenovus Energy (CVE) and Parsley Energy (PE), while boosting basic materials and end-user names such as Westrock (WRK), Goodyear Tire (GT), and Sunoco LP (SUN).

Natural Resources Portfolio Review

The entire public natural resources sector has experienced a dramatic change in its funding model since the precipitous fall of crude oil and industrial base metal prices in 2014-15. Once greater than a 16% weight in the S&P 500 in the early 2010s, natural resources (oil and gas + materials) have since fallen to 5.5% of the S&P in response to falling commodity prices and meager (but increasing) levels of free cash flow generation (free cash = cash from operations less capex).

The average passively managed dollar is 60% less resources-weighted than it was in 2012-13

The change in commodity-oriented businesses has coincided with a transformation in the process of public equity capital formation. In a world where 100% of net equity fund inflows have been into passively-managed funds since 2012, we can assume that the share of capital flowing into the natural resources sector has fallen by over 60%, as dollars that used to be allocated 16% to resources are now 5.5% allocated to the sector.

The typical actively managed dollar likely has reduced resources exposure by more than 60% since 2012-13

Notably, this excludes the harder-to-measure impact of active managers who have shrunk as a % of the market, but have also shifted from "overweight" to "underweight" in relation to energy and resources stocks, likely driving a >60% reduction in absolute dollars allocated to these sectors (as broad equity managers will often go from "overweight" an outperforming sector like resources to "underweight" as the sector fell out of favor in 2014-15). Meanwhile, the lack of actively managed public equity capital flowing into energy and resources sectors has meant that the increasingly scarce passive capital dollars have largely been directed to integrated energy index weights – think Exxon (XOM), Chevron (CVX), Hess (HES), Occidental (OXY), Conoco (COP) – as opposed to smaller-cap names. This trend has been clearly reflected in the outperformance of bellwether resources and energy companies and the broad indifference to the improving health of smaller-cap companies, which we noted above.

The increasing reliance on self-generated cash flow dollars for capex has contributed to lower-amplitude, shorter oil cycles

What does the change in capital markets mean for the underlying businesses engaged in hydrocarbon production? In an equity market where capital dollars earmarked for energy and resources are much harder to come by, companies have been increasingly dependent on commodity-derived cash flows to generate funds for reinvestment. All of this is good and healthy, as oil and gas as well as materials companies have transitioned a from "relying on the kindness of strangers" in the capital markets, to actually generating free cash flow (FCF). Bernstein research has noted that YTD in 2018, E&P cash from operations (CFFO) has outpaced cash from investments (CFFI) at levels not seen since 2009 (extreme austerity environment) and 2014 (peakish commodity price environments). Sounds great, right? Well, not entirely.

US E&Ps have struggled to adapt to the "just-in-time" dispatch curve concept governing the oil market, as strong summer pricing has led to surging capex which has delivered oil into ice-cold winter markets in 3 of the past 5 years

Since 2011, we have seen increasingly "self-funded" E&P businesses experience maximum cash margins in the middle of the year, as summertime global oil demand typically is 1 mmbbls/day higher than wintertime demand. The result in 3 of the last 5 years (2014, 2016, 2018) has been peak E&P cash flows in Q2 and Q3 have funded increased drilling activity, leading to a surge in production that arrives during the soft demand of winter. One side-effect of this that appears to be poorly understood by investors and producers alike has been the impact of the "dispatch curve" framework on oil prices. As discussed in Recurrent's dispatch curve white paper, which lays out how shale effectively serves as "just-in-time" inventory for the oil market, providing rapid-response supply that can rapidly "turn off" to balance an oversupplied market and "turn on" to balance an undersupplied market.

Cheap valuations, challenging seasonal supply/demand dynamics, and a structural reduction in external equity available all point towards the same thing - cash returns to shareholders

It is said that the market is only interested in funding your business when you don't need the cash. Certainly, the 25% annualized outperformance of the refining sector vs. the E&P sector since 2011 would support this truism. Over the period of time since 2011, the capital spending of the 4 refiners in the S&P 500 has averaged 54% of total cash from operations (CFFO). The remaining 46% was returned to shareholders, primarily through buybacks (which represented the use of 57% of refiner FCF during this period). By contrast, the 14 E&P companies included in the S&P 500 have reinvested 90% of their CFFO, and of the 10% remaining, 26% was returned in the form of a buyback (2.6% of CFFO).

What is especially noteworthy is that the end markets for refiners and E&Ps are almost necessarily growing at similar rates, since oil has only one customer – the refining industry. If anything, demand for gas and NGLs – both products of E&Ps more than refiners – is growing at a faster rate than petroleum, yet margins are worse. Refiners are more exposed to long-term risks such as the rise of the electric vehicle and are produce more GHG emissions than E&Ps, and yet none of these long-term risks have stuck to refiners, because they have made shares in their companies an increasingly scarce commodity over the past 7 years.

It goes without saying that with more free cash flow returning to shareholders via dividends and buybacks, the fundamental supply and demand for refining equities has been meaningfully tighter than for E&P stocks in recent years – in fact, 27% of market cap of these 4 refiners has been retired since 2011 – compare that to 3% of market cap retired by the 14 E&Ps in the S&P 500. The 24% differential coincidentally is almost identical to the difference in annualized return between both subsectors.

For an E&P sector trading at or below 5x EBITDA into 2019 at strip pricing today, and generating more FCF than any time since 2009, certainly there are a variety of compelling reasons for E&P companies to take the place formerly occupied by active managers, by buying their own stock. Today those investors likely hold more Amazon and Apple than they invest in the entire resources and energy sectors. As the history of the refining sector has shown us, investors are more likely to return when they see management teams treating their stock as a scarce and precious commodity

Fund facts

Fund total net assets:	$15.13 M
Fund domicile:	Luxembourg
Fund type:	UCITS SICAV
Base currency:	USD
Management fee:	0.95% p.a.
Depositary, Administrator, Transfer Agent:	BNP Paribas Securities Services (LU)
Management company:	Alma Capital Investment Management (LU)
Investment manager:	Recurrent Investment Advisors (US)
Fund managers:	Mark Laskin Bradley Olsen

Dealing:

Each day with a 1-day notice — Cut-off time : 12 pm CET

Identifiers:

Institutional USD Capitalisation share class

Isin: LU1823602369 — Ticker: ARGNIUC LX — Launch: 29 June 2018

Institutional EUR Capitalisation share class

Isin: LU1845388146 — Ticker: ARGNIEC LX — Launch: 29 June 2018

Countries where the fund is registered:

Luxembourg, France

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