



# Alma Hotchkis & Wiley Global Value Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV



As of 30 September 2019

## Fund description

- Investment objective: seek current income and long-term capital appreciation by investing in a portfolio of global 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 80 securities and generally invests in companies with a market capitalization above \$1 billion
- The fund invests primarily in companies located in developed countries, with at least 40% outside the U.S. Emerging markets: up to 20%

## 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
- Hotchkis & Wiley manages \$30 billion

## Cumulative performance (%)

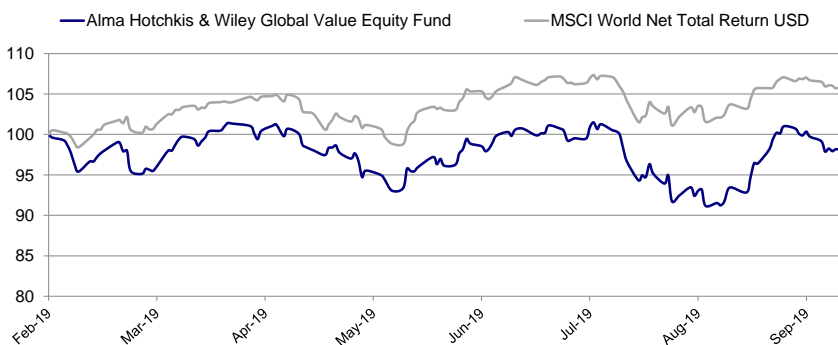
	1 M	3 M	6 M	YTD	1Y	3Y	ITD
I USD C shares	4.97	-1.76	2.12				-1.91
MSCI World Net Total Return USD	2.13	0.53	4.56				5.93

Fund launched on 28 February 2019

## Portfolio characteristics

Main indicators	Fund	Index
No. of securities	56	1650
Weighted Average Market Cap (\$ bn)	87.3	172.8
Median Market Cap (\$ bn)	27.7	13.2
Projected P/E Ratio FY2 (x)	10.3	15.1
Price / Normal Earnings (x)	7.2	16.5
Price / Book (x)	1.1	2.3
Price / Sales (x)	0.8	1.7
Projected EPS Growth (%)	5.9	6.1
Active share (%)	92.6	-

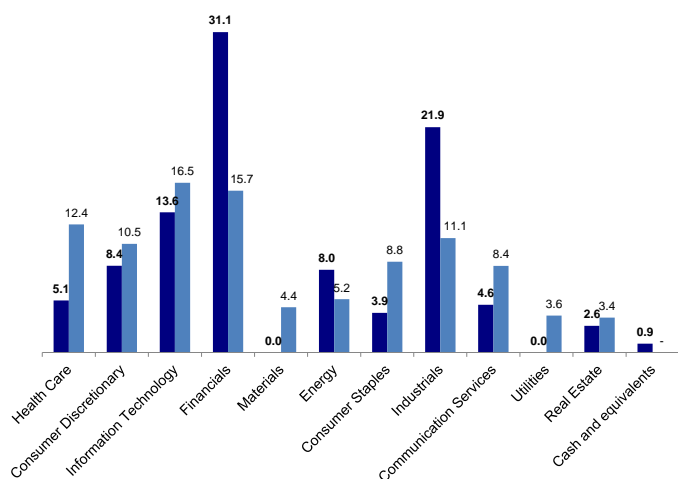
## Performance (Indexed - Base 100)



## Sector breakdown (% NAV)

■ Alma Hotchkis & Wiley Global Value Equity Fund

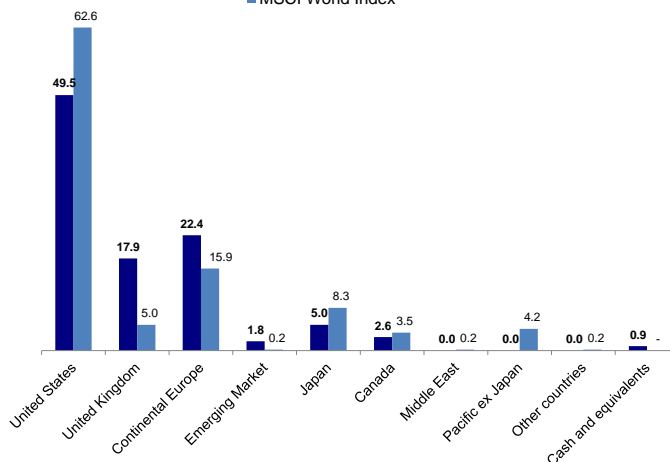
■ MSCI World Index



## Regional breakdown (% NAV)

■ Alma Hotchkis & Wiley Global Value Equity Fund

■ MSCI World Index



## Top 10 positions details

Security name	Sector	Country	% NAV
GENERAL ELECTRIC CO	Industrials	United States	4.67
AMERICAN INTERNATIONAL GROUP	Financials	United States	4.28
WELLS FARGO & CO	Financials	United States	4.18
GOLDMAN SACHS GROUP INC	Financials	United States	3.60
MICROSOFT CORP	Information Technology	United States	3.33
BAE SYSTEMS PLC	Industrials	United Kingdom	2.97
ORACLE CORP	Information Technology	United States	2.86
CNH INDUSTRIAL NV	Industrials	United Kingdom	2.74
SOCIETE GENERALE SA	Financials	France	2.65
MAGNA INTERNATIONAL INC	Consumer Discretionary	Canada	2.61
<b>TOTAL:</b>			<b>33.88</b>

## Investment manager's commentary

### Market:

The MSCI World Index returned +0.5% in the third quarter of 2019, and is now up more than +17% since the beginning of the year. Global central bank policy continues to be accommodative; in the US, the Federal Reserve's FOMC lowered the Fed Funds rate by 25 basis points for the second time this year, which now stands at 2.0% (upper bound). The rate cut was widely expected and triggered little reaction from global equity markets. The price of crude oil spiked following the drone attacks on Saudi refineries, but this was short-lived and Brent crude finished the quarter down -9%. Energy was the MSCI World Index's worst-performing sector, declining -6% in the quarter. It has been the index's worst-performing sector over the past year returning -16% (Brent has declined -27% over the past year), and has been the worst-performing sector in three of the past four calendar quarters. Utilities +7%, real estate +4%, and consumer staples +4% were the best-performing sectors in the quarter. These are also the top three sectors, by far, over the past year. The MSCI World Index is up +2% over the past 12 months with these three sectors are up considerably more: utilities +22%, real estate +17%, and consumer staples +12%.

Concerns about slowing economic growth have become increasingly pervasive amid trade negotiations and geopolitical uncertainty (e.g. Brexit in the UK, potential impeachment proceedings in the US). As a result, US treasuries rallied during the quarter with the yield on the 10 year note falling below 1.5% in late August—for about a week, the 2-year treasury yield exceeded the 10-year treasury yield. This is noteworthy as earlier recessions have been preceded by similar 10-year/2-year yield curve inversions. The time between inversion and recession has varied significantly, from several months to more than 2 years.

The timing of the next global economic slowdown and/or recession is unclear but it is certainly possible in the near to intermediate term. Despite this, we are overweight cyclicality in our portfolio – particularly financials and industrials – as this is where we see the greatest price vs. fair value dislocation in the market. We believe we own good businesses with strong balance sheets that will enable these companies to grow their value through the economic cycle.

To illustrate our approach given the current state of affairs, consider the thesis behind our positions in banks (the portfolio's largest absolute and relative industry weight) and utilities (the portfolio has no exposure). The MSCI World Bank Index trades at 10.1x consensus earnings, which is 13% below its long term average of 11.7x. The MSCI World Utilities Index trades at 18.1x consensus earnings, which is 14% above its long term average of 15.8x. Returns-on-equity for the two indexes are similar<sup>1</sup>. Dividend yields are also similar but because valuations are so different, utilities have to pay out about 2/3 of their earnings in dividends while banks pay out less than half of their earnings to arrive at similar yields<sup>2</sup>. Because banks retain more of their earnings, it has allowed them to amass capital and strengthen their balance sheets, and in recent years, buyback their own stock. Given the information above, for the two indexes to generate equivalent returns going forward, one of several things would need to occur. The valuation gap would need to widen even further, utilities would need to accelerate earnings growth, or banks would need to suffer a major destruction of capital. To us these seem like unlikely scenarios because the valuation gap is already near an all-time wide, organic growth prospects for utilities are limited, and banks have accumulated near record levels of excess capital on their balance sheets to protect against a downturn. Thus, we view banks as superior risk-adjusted investments irrespective of near-term economic growth.

The portfolio continues to trade at a large discount to the market. The portfolio trades at 7.2x normal earnings compared to 16.5x for the MSCI World Index. It trades at 1.1x book value compared to 2.3x for the index. This valuation discount combined with healthy balance sheets and good underlying businesses has us confident about the portfolio's prospects as we look forward.

### Attribution: 3Q 2019

The portfolio underperformed the MSCI World Index in the third quarter of 2019. We believe the strategy's ability to invest across the cap spectrum is a long-term advantage, but this was a headwind during the quarter as small and mid cap stocks lagged large and mega caps. Stock selection in industrials, energy, and technology also detracted from performance. Positive stock selection in financials and healthcare, along with the underweight position in materials helped relative performance. The largest individual detractors to relative performance were Whiting Petroleum, General Electric, Discovery, Embraer, and Corning; the largest positive contributors were Vodafone, BAE Systems, Wells Fargo, AIG, and Societe Generale.

### Largest New Purchases: 3Q 2019

Haseko is a contractor for the condominium industry in Japan and is vertically integrated into the design, construction, sales, management and refurbishment of condominiums. The Company has a dominant market-share in its core geographies trades at a low multiple of earnings, has a net cash balance sheet and returns capital to shareholders.

Royal Dutch Shell is an integrated oil company. Shell should see higher earnings power under normal oil price estimates as they have slight production growth with capital expenditures below depletion, depreciation and amortization for the foreseeable future. Additionally, Shell should earn higher returns than anyone outside of Qatar in their growing liquid natural gas business. Furthermore, Shell's downstream and, to a lesser extent, gas businesses are insulated from oil prices and should continue to generate reasonable returns at low crude prices. Capital allocation is good, and we believe a meaningful portion of free cash flow will be returned to shareholders via dividends and buybacks. Shell has a healthy capital structure and trades at an attractive valuation.

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.

<sup>1</sup> 11.6% ROE for banks, 10.9% ROE for utilities, based on FY1 consensus estimates.

<sup>2</sup> 2.9% dividend yield for banks, 3.1% dividend yield for utilities. 32% dividend payout ratio for banks, 64% payout ratio for utilities.

## Fund facts

<b>Fund total net assets:</b>	\$10.02 M	<b>Dealing:</b>	
<b>Fund domicile:</b>	Luxembourg	<b>Each day with a 1-day notice</b>	Cut-off time: 5 pm CET
<b>Fund type:</b>	UCITS SICAV	<b>Identifiers:</b>	
<b>Base currency:</b>	USD	Institutional USD Capitalisation share class	
<b>Management fee:</b>	0.85% p.a.	Isin: LU1907586306	Ticker: ALHWGIU LX
<b>Depositary, Administrator, Transfer Agent:</b>	BNP Paribas Securities Services (LU)	Launch: 28 February 2019	
<b>Management company:</b>	Alma Capital Investment Management (LU)	<b>Contacts</b>	
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<b>Fund managers:</b>	Scott McBride, Judd Peters Scott Rosenthal, Patrick Meegan		

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