ALMA CAPITAL

Alma Hotchkis & Wiley US Large Cap Value Equity Fund

Hotchkis & Wiley

A sub-fund of Alma Capital Investment Funds SICAV

As of 29 March 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 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 (%)

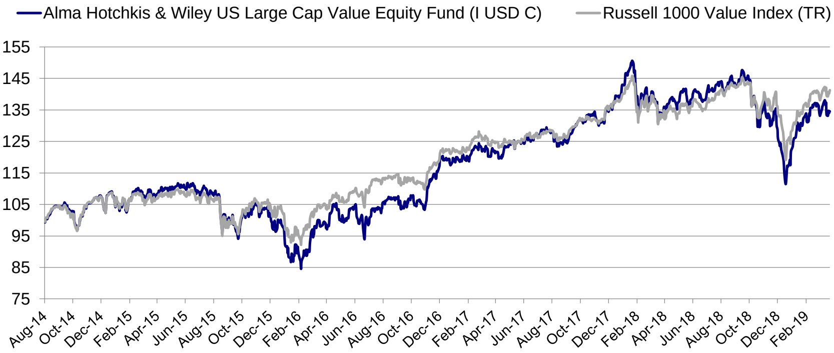
	1 M	3 M	6 M	YTD	1Y	3Y	ITD
I USD C shares	-1.14	14.23	-6.84	14.23	0.34	35.37	34.55
R USD C shares	-1.14	14.23	-6.84	14.23	0.30		
Russell 1000 Value Index (TR)	0.64	11.93	-1.19	11.93	5.67	34.74	41.25

Fund launched on 6 August 2014

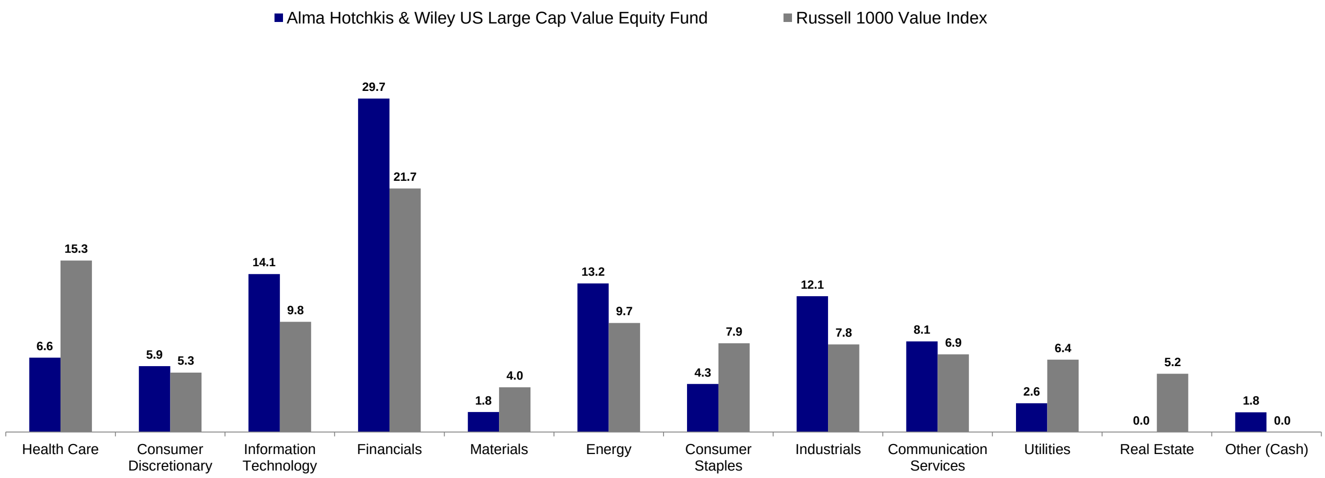
Portfolio characteristics

Main indicators	**Fund**	**Index**
No. of securities	51	722
Weighted Average Market Cap ($ bn)	104.8	119.8
Median Market Cap ($ bn)	33.7	9.2
Projected P/E Ratio	10.4x	13.1x
Price / Normal Earnings	8.2x	14.2x
Price / Book	1.4x	2.0x
Price / Sales	1.1x	1.5x
Projected EPS Growth (%)	6.0	5.6
Active share (%)	83.2	-

Performance (Indexed - Base 100)



Sector breakdown (% NAV)



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Top 10 positions details

Security name	Sector	% NAV
AMERICAN INTERNATIONAL GROUP	Financials	5.01
CITIGROUP INC	Financials	4.30
GENERAL ELECTRIC CO	Industrials	4.29
MICROSOFT CORP	Information Technology	3.94
WELLS FARGO & CO	Financials	3.89
HEWLETT PACKARD ENTERPRISE	Information Technology	3.22
GOLDMAN SACHS GROUP INC	Financials	3.18
GENERAL MOTORS CO	Consumer Discretionary	3.15
ORACLE CORP	Information Technology	2.80
HESS CORP	Energy	2.58
	TOTAL:	**36.37**

Investment manager's commentary

Market Commentary

After falling -13.5% in 4Q 2018, the S&P 500 Index returned +13.7% in the first quarter of 2019. The swift decline and equally rapid recovery were both triggered by changes in investor sentiment as opposed to changes in underlying economic or business fundamentals. Investor concerns emerged late in 2018 regarding trade tensions and a hawkish Fed; this combination created fears of impending global economic recession. These concerns appeared to fade during the first quarter of 2019 due to positive progress on US/China trade talks and dovish comments from the Federal Reserve. Throughout this period we have witnessed a significant decline in longer maturity Treasury yields and a flattening of the yield curve. After reaching 3.2% in late 2018, the 10-year note yield fell below 2.4% in March, its lowest level in more than a year despite the Fed's four 2018 rate hikes. In response to these changes, all S&P 500 sectors were positive in the first quarter, with the best returning +20% (technology) and the worst returning +7% (healthcare). The S&P 500's forward P/E ratio increased from 15.4x at the end of 2018 to 17.1x at the end of the first quarter. The index's median valuation over the past ~30 years is 16.4x; while it is now slightly above median, it is considerably lower than the 20x level where it began 2018.

While the overall market appears fairly valued, we find solace in the large valuation disparity between certain segments of the market—some are attractively valued, some richly valued. The S&P Banks Industry Group trades at 9.9x forward earnings. The median multiple for banks over the last 30 years is 12.0x, so the group currently trades at about 80% of its historical average. Considering that banks' balance sheets are as strong as they have been in decades, and nearly 80% of earnings are being returned to shareholders via dividends and share repurchases, we view banks' risk/reward tradeoff as especially compelling. The portfolio's banks trade at an even lower valuation (8.9x consensus earnings and 8.1x normal earnings) with a payout yield of 11% (dividends + share repurchases as a percentage of total equity). Conversely, the S&P Utilities Industry Group trades at 18.8x forward earnings, or double the valuation of banks. The median multiple for utilities over the last 30 years is 14.4x, so the group currently trades at about 130% of its historical average. Opposite of banks, utilities have added financial leverage, increasing net debt to EBITDA by 50% over the past decade from 3.4x to 5.1x. Utilities can support higher debt levels than most other businesses, but paying high multiples for slow growing businesses with increased leverage is not an attractive proposition in our view. Recognizing the considerable valuation dispersion across sectors, the portfolio exhibits larger-than-normal sector deviations from the benchmark.

The Russell 1000 Growth Index outperformed the Russell 1000 Value Index in the quarter by about 4 percentage points (+16% vs. +12%); since the beginning of 2017, growth has outperformed value by 32 percentage points (+49% vs. +17%). Interestingly, the combination of earnings growth plus dividends paid has been similar for the underlying growth and value companies over this period. The performance difference, therefore, is almost entirely explained by changes in price multiples. The P/E ratio for the Value index has contracted by more than 20% while the P/E ratio for the Growth index has expanded by about 8%. This repricing has contributed to not only to the large valuation differences across sectors but also to notable spreads within sectors. In response to this backdrop our Value approach leads to a portfolio that trades at a large discount to the Value index and an exceptional discount to the Growth index. The portfolio's price-to-normal earnings ratio is just 58% of the Russell 1000 Value's P/E compared to the long term average of 71%; the portfolio's price-to-normal earnings ratio is just 35% of the Russell 1000 Growth's P/E compared to the long term average of 49%. As active investors with a commitment to long-term fundamental valuation, we view this environment as conducive to our approach and we are optimistic about the portfolio's prospects.

Attribution:1Q 2019

The fund outperformed the Russell 1000 Value Index in the first quarter of 2019. Positive stock selection drove about 85% of the outperformance in the quarter, with the balance coming from favorable sector allocation. Positive stock selection in financials and energy were the largest contributors. The underweight position in healthcare and overweight position in technology were more modest positive contributors. On the negative side, the overweight in financials and underweight in real estate detracted from performance along with stock selection in consumer discretionary and technology. The largest positive contributors to relative performance in the quarter were General Electric, Hess, Apache, Hewlett Packard Enterprise, and Murphy Oil; the largest detractors were Vodafone, Adient, State Street, Wells Fargo, and Embraer.

Fund facts

Fund total net assets: $85.83 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

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