FOR PROFESSIONAL INVESTORS ONLY

ALMA CAPITAL

Alma Recurrent Global Natural Resources Fund

RECURRENT INVESTMENT ADVISORS

A sub-fund of Alma Capital Investment Funds SICAV

As of 28 February 2019

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	3.00	3.32	-5.63	14.04	-	-	-7.95
I USD C shares	2.22	3.95	-7.38	13.58	-	-	-10.08
Index*	1.42	5.46	-4.36	11.18	-	-	-6.53

Fund launched on 29 June 2018

*S&P Global Natural Resources Net Total Return Index USD

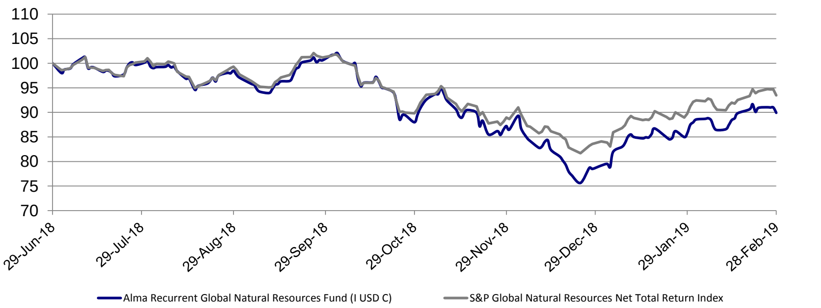
Portfolio characteristics

Main indicators	Fund	Index*
No. of securities	40	89
Estimated Price/Earnings	14.1x	13.2x
Estimated Long Term Growth	8.5%	8.0%
Price to Book Ratio	1.5x	1.4x
Price to Sales Ratio	0.7x	0.8x
Weighted Average Market Cap ($ bn)	56.6	70.3
Median Market Cap ($ bn)	18.7	18.3
Active Share (%)	52.0	-

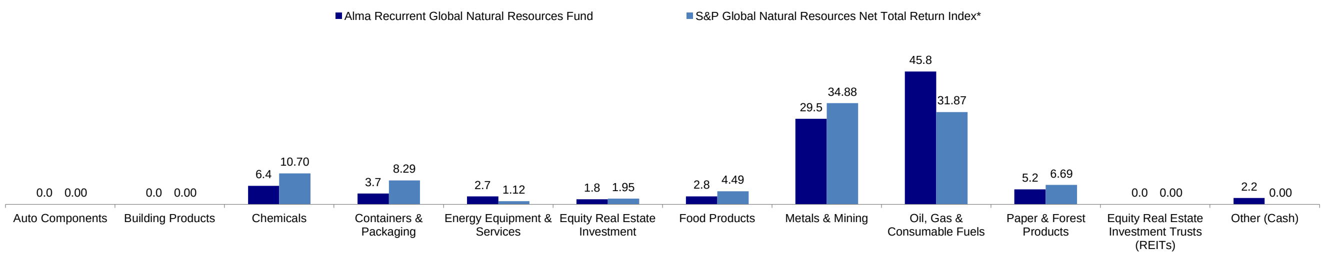
*S&P Global Natural Resources Net Total Return Index

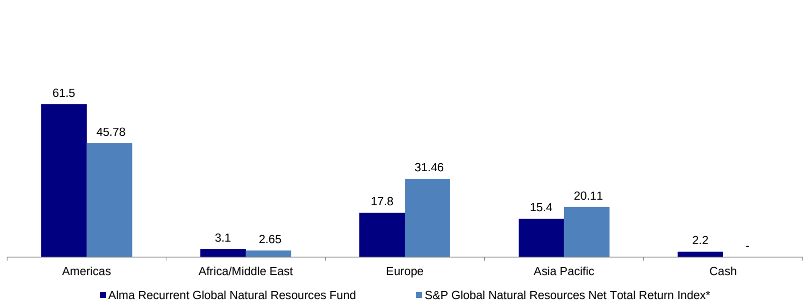
Except number of securities, using "SPDR S&P GLOBAL NATURAL RESOURCES ETF" as a proxy

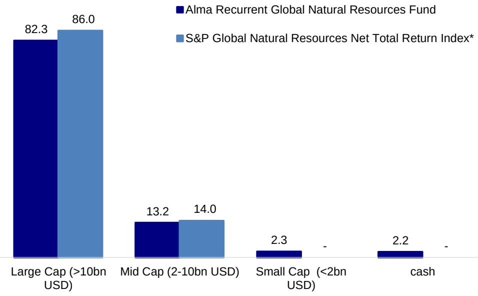
Performance (Base 100)



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
BHP GROUP LTD-SPON ADR	Metals & Mining	Australia	5.13
FORTESCUE METALS GROUP LTD	Metals & Mining	Australia	4.38
NUTRIEN LTD	Chemicals	Canada	4.22
RIO TINTO PLC-SPON ADR	Metals & Mining	Australia	4.01
UPM-KYMMENE OYJ	Paper & Forest Products	Finland	3.94
GLENCORE PLC	Metals & Mining	Switzerland	3.85
KINDER MORGAN INC	Oil, Gas & Consumable Fuels	United States	3.74
TOTAL SA-SPON ADR	Oil, Gas & Consumable Fuels	France	3.68
ENERGY TRANSFER LP	Oil, Gas & Consumable Fuels	United States	3.67
EXXON MOBIL CORP	Oil, Gas & Consumable Fuels	United States	3.46
		TOTAL:	**40.08**

Investment manager's commentary

Performance Review

During the month of February, base metals and crude oil prices rose, while precious metals and agricultural commodities prices largely fell. Nickel, copper and crude oil prices each rose more than 5% in the month of February, and nickel and crude oil prices have risen more than 20% year to date, yet still remain broadly depressed compared to 2H 2018 levels, reflecting the volatility of December and January.

The Alma Recurrent Global Natural Resources strategy rose 2.2% (net) in February, outpacing the 1.5% rise of the S&P Global North American Natural Resources Index. During the month, global iron ore prices rose in reaction to the reduction of Brazilian supply as a result of the dam disaster. Among global iron ore producers, the Australian Fortescue Metals Group (FMG AU) has the unique ability to make up for the lost Brazilian supply, and rose by more than 12% during the month. Additionally, iincreased copper prices, combined with inexpensive valuations, helped portfolio holding Freeport McMoran (FCX) to rise nearly 11%. Lastly, the benchmark Western Canadian oil price rose from a low of $13 in November to close February at more than $45/barrel, boosting Cenovus Energy (CVE) by more than 17% during the month.

Natural Resources Discussion – Natural Resources Discussion - Global oil and base metal fundamentals continue to recover after investor concerns peaked late in 2018. Combined with attractive valuations, the similarities to 1H 2016 continue, providing a constructive backdrop for 1H 2019.

Every February, E&P capital budgets are announced, and fiercely debated and analyzed, given their importance to the energy sector. And every year, it seems that E&Ps simply respond to prevailing oil prices – when prices are high, drilling increases; when prices fall, so does drilling activity. A superficial look at 2019 budgets indicates that business continues as usual – oil prices declined 15-20% year over year, and capital budgets came down by comparable magnitude. Acknowledging the superficial similarity to years past, 2019 was different for a key reason: many E&Ps viewed as having the **"best acreage"** or **"highest return wells"** announced capex cuts that were equally, and in some cases more dramatic vs. companies perceived as having "second tier" assets. Given the consensus wisdom that "best acreage" = "lowest breakeven" cost of production, it seems to defy economic logic that resources with better economics would yield to those with inferior economics. Why, we ask, with a goldilocks oil price of $55/bbl, did companies that had previously refused to yield to $40/bbl oil, now cut back on drilling?

We offer a differentiated explanation for why companies with "quality acreage" are cutting capex in an unprecedented way. In stark contrast to many of our competitors, who believe that "cost of supply" is determined solely by "quality of acreage," we believe that there are several equally-important variables – of which "acreage quality" is only one - that determine whether a given resource is "economically worthy" of further investment. Dramatically, we believe that even for the best assets in North America, even a modest combination of debt leverage and high legacy declines can offset the benefits of acreage quality, forcing the "highest quality acreage" companies to restrain growth in even high-return assets.

We would argue that in 2019, we've seen many E&Ps with world class assets reduced to near-passivity as a result of simultaneously "managing the balance sheet" and "managing declines." High declines obligate a producer to invest large amounts of capital to simply keep production flat. This is crucial since letting production fall exacerbates debt ratios.

February 2019: An E&P budgeting season like any other?

During February earnings calls, oil and gas producers (E&Ps) typically announce drilling and capital spending plans for the coming year. E&P budgeting always has a meaningful impact on a wide array of energy stocks – E&P capex becomes oilfield services revenue, and the production generated drives midstream revenue in turn. While budgets are fiercely debated (and traded) by investors, an outside observer would be forgiven for thinking that budgeting is nothing more than a knee jerk response to price: "oil price up = spend more / oil price down = spend less."

As we've noted in previous monthlies, the prolific and rapid response of shale resources in North America have created an unmistakable pattern: summertime peak oil demand creates price spikes, and North American producers respond with post-summer surges in production. After the summer peak, prices collapse. In the second half of 2014, 2016 and 2018 (the 2 year interval has been strangely consistent) - production surges have created massive downdrafts in the global price of oil. In each case, within 6 months, we've seen oil stage meaningful rallies as producers have vowed to cut back during budgeting season in 2015, 2017 and now another rally underway in 2019.

Given the painful rollercoaster created by oil price volatility, the market has responded to untimely E&P-driven supply surges by steadily de-rating the E&P sector, with valuations declining as a result (EV/ acre and EV/EBITDA both declining meaningfully since 2016, long after the commodity rout took hold). Many investors have demanded "greater capital discipline" from the E&P space, as hopes that E&Ps would "grow into" either greater profit per barrel or profit per share have been dashed by the volatile seasonality of crude. For many, "greater capital discipline" was supposed to lead to an orderly world where high-return assets would continue to see capital investment, while higher-cost assets would not.

But that's not exactly what happened – return profiles have not been the determinant of YTD capital flows. Capital, in fact, has ignored acreage quality and sought (low) base declines, acreage quality be damned. Gone from the February performance leaderboard of the S&P Oil and Gas E&P Index (XOP) are the high-growth Permian companies; instead, it reads like a "pre-shale E&P Hall of Fame": Murphy, Exxon, Chevron, Marathon, California Resources, Hess; meanwhile, at the bottom of the list, we see names of "acreage quality all-stars" and companies with the "right zip code" such as Centennial, Antero, Concho, Matador, Laredo. Highly manageable base declines are the only unifying theme among the former group; high decline rates define the second (despite varying amounts of debt).

But debt matters for reinvestment decisions too, particularly in times of financial austerity. The more debt leverage, the more a company is forced to tighten its belt in order to meet financial goals. In the case of the E&P sector, we looked to see if there was a correlation between debt leverage and 2019 CAPEX reductions, all within the scope of the aforementioned E&Ps, many of which are relatively large companies, with diverse operations.

Unsurprisingly, the impact of debt does seem to have some causal relationship to the degree to which CAPEX was reduced. Inherently, while this does make sense, the strength of the relationship is not strong enough to lead us to believe that debt leverage is the only factor determining the size of the CAPEX reduction.

Since the reduction of CAPEX is such an important change of strategic direction in the energy industry, we will continue to explore other factors which influence the size and scope of E&P CAPEX.

Fund facts

Fund total net assets:	$18.03 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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