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 31 May 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	-8.78	-4.01	-0.82	9.46	-	-	-11.64
I USD C shares	-9.30	-6.01	-2.29	6.76	-	-	-15.48
Index*	-7.79	-6.95	-1.87	3.45	-	-	-13.03

Fund launched on 29 June 2018

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

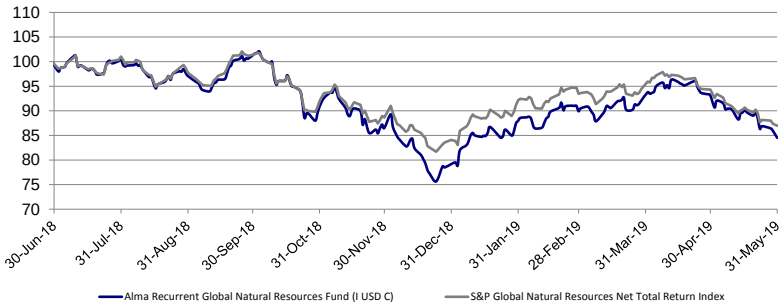
Portfolio characteristics

Main indicators	Fund	Index*
No. of securities	41	88
Estimated Price/Earnings (X)	12.7	12.4
Estimated Long Term Growth (%)	7.9	6.9
Price/Book (X)	1.3	1.3
Price/Sales (X)	0.6	0.8
Weighted Average Market Cap ($ bn)	55.1	82.4
Median Market Cap ($ bn)	21.8	17.6
Active Share (%)	63.4	-

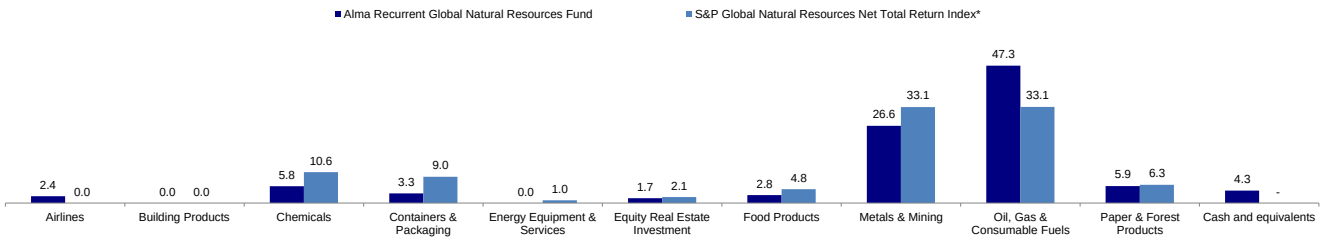
*S&P Global Natural Resources Net Total Return Index

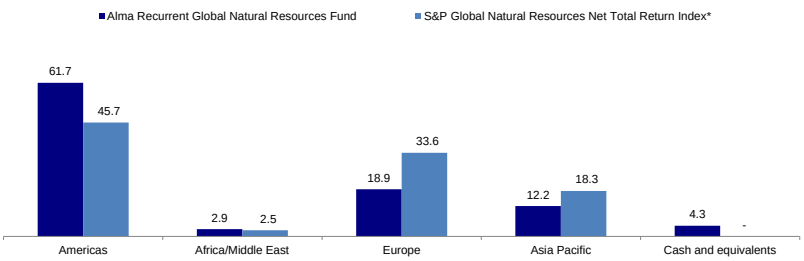
Except number of securities, using "SPDR S&P GLOBAL NATURAL RESOURCES ETF" as a proxy

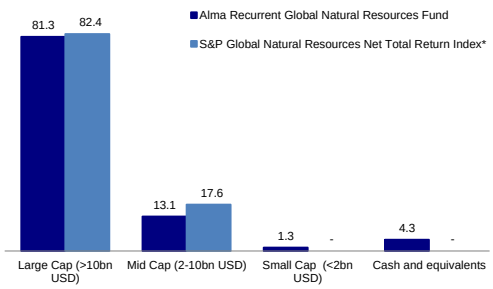
Performance (Indexed - Base 100)



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	5.16
TOTAL SA-SPON ADR	Oil, Gas & Consumable Fuels	France	4.89
CENOVUS ENERGY INC	Oil, Gas & Consumable Fuels	Canada	4.09
RIO TINTO PLC-SPON ADR	Metals & Mining	Australia	4.09
NUTRIEN LTD	Chemicals	Canada	3.88
FREEPORT-MCMORAN INC	Metals & Mining	United States	3.64
ENERGY TRANSFER LP	Oil, Gas & Consumable Fuels	United States	3.49
UPM-KYMMENE OYJ	Paper & Forest Products	Finland	3.34
EXXON MOBIL CORP	Oil, Gas & Consumable Fuels	United States	3.17
CONOCOPHILLIPS	Oil, Gas & Consumable Fuels	United States	3.03
		TOTAL:	**38.78**

Investment manager's commentary

Performance Review

During the month of May, the Alma Recurrent Global Natural Resources portfolio fell by 9.30%, more than the S&P North American Natural Resources' 7.79% fall. Global economic weakness negatively impacted commodity prices; copper and oil prices fell more than 9% and 16%, respectively. Unsurprisingly, related equities fell, as the S&P Global 1200 Energy Sector fell 8.1% and the S&P Global 1200 Copper Sub-Industry Index fell more than 21%.

Within the portfolio, the most positive contributor to performance was Fortescue Metals Group (FMG AU), an Australian iron ore producer, which rose more than 16% during the month. Fortescue shares have risen more than 127% year-to-date as iron ore prices rose approximately 38% during the same period. Given the strong performance, we have been reducing the portfolio weighting in the portfolio, using our valuation discipline. Although relatively small portfolio positions, oil exploration and production holdings Chesapeake Energy (CHK) and Marathon Oil (MRO), and refiner Marathon Petroleum (MPC) contributed negatively to portfolio performance.

Global Natural Resources Discussion

Understanding shale E&P cost drivers – investors' singular focus on "drilling economics" fails to appraise the true cost of shale. We offer a more holistic cost analysis sets the floor for global oil prices.

We believe the dispatch curve framework to be increasingly important to further examine the apparent mismatch in recent financial results (improving EPS, improving CFPS), the market's negative responses, and inherent commodity price implications. The unique cost structure of **maintaining** a stable shale production base has 4 key drivers (with indicative ranges below, which we believe are far more generic than most investors realize):

1. **Operating margin (rev less opex) per barrel** – determined by oil mix and operating expense ($25/boe* margin for an "average" oil well)
2. **Drilling / development costs** – the finding and development costs per boe of oil ($7-15/boe, depending on basin)
3. **Non-operating corporate-level costs** – debt and G&A per boe ($4-12/boe, depending on exec comp and debt leverage)
4. **Decline rate** – the required % of production barrels that must be replaced every year (30-60% for shale)

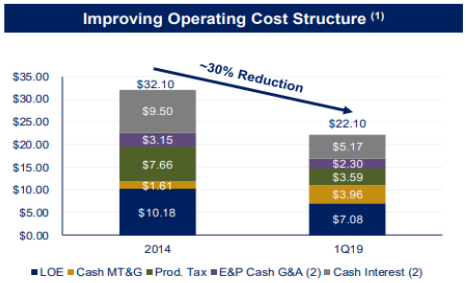
Note: $25/boe net margin = 40-80% oil well generates assumed net revenue $30-40/boe (in $50-60/bbl crude); opex/transport/tax ranges from $5-15/boe.

Said differently, the vast majority of Wall Street analysts' time and effort and the majority of company's presentation materials are focused on variables that determine only a small fraction of the total cost structure and where these companies land on the dispatch curve. We find that company-level decisions about leverage, workforce size and compensation (G&A), drilling & development costs as well as decline rates are **far more important than any individual unit cost cutting effort** – whether drilling costs or variable costs.

Investors' singular focus on drilling economics is matched by company focus on opex improvements.

As an example of the focus on unit costs, we can use the example of a slide from a recent E&P presentation, which actually incorporates several variables above (while ignoring decline rates and maintenance capital needs). As seen in Chart 1 below, this E&P is appropriately proud of 30% reduction in costs per barrel since 2014.

Chart 1 – An example of operating costs from a recent E&P presentation



Source: Public company presentation

The operating cost structure has fallen 30% since 2014, but there is one other cost of note – capex (of which drilling is usually only 60-80%). In this case, the company spent $166mm on E&P CAPEX in 1Q 2019, which equates to approximately $20/BOE of additional costs. So with a $22/BOE operating cost, and $20/BOE of CAPEX, the "cash operating + capex" costs approach $42/BOE, associated with an expected 7% growth rate for 2019 production.

In recent quarters we have seen the market react negatively to the impacts of oil/gas production mix, production decline curves, debt, and SG&A costs that surprise investors, driving company valuations lower. In our white paper, we will look to more thoroughly frame these key variables which keeps the oil price rangebound for the foreseeable future, and determines relative success or failure in the current energy investment environment.

Fund facts

Fund total net assets:	$19.89 M
Fund domicile:	Luxembourg
Countries where the fund is registered:	Luxembourg, France
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

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