ALMA CAPITAL

Alma Apis Global Long/Short Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

apis

As of 31 March 2020

Fund description

- Global long/short equity strategy
- Geographic focus in North America, Asia, and Europe, with some emerging markets exposure
- Sector focus in Technology, Consumer, Healthcare, Industrials and Cyclicals/Materials
- Emphasis on small to medium capitalisation securities
- Portfolio holdings typically around 80 to 100 names (40/50 longs + 40/50 shorts)

Investment manager: Apis Capital Advisors LLC (New York, US)

- Apis Capital Advisors, LLC ("Apis"), is an SEC registered, New York-based, fund management firm founded in 2004
- Borderless approach to stock selection: Apis seek investments wherever their research achieves the most leverage, inefficiencies are greatest, and analytical competition is weakest – across countries, sectors, and market capitalisations
- Management owned
- Team leverages on global relationships built over 25 years of global investing

Cumulative performance (%)

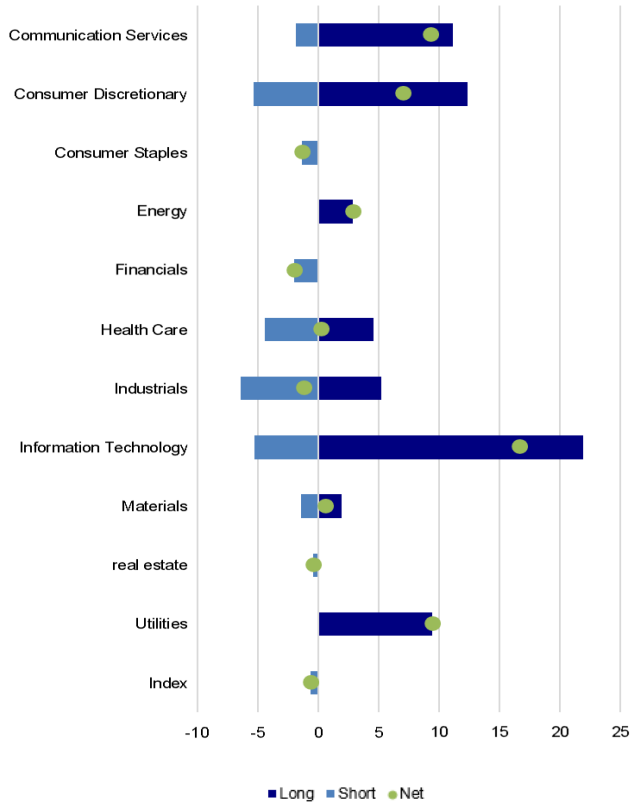
	I USD C	MSCI ACWI Index**
1M	-5.16	-13.50
3M	-10.65	-21.37
6M	-2.98	-14.33
YTD	-10.65	-21.37
1Y	-7.79	-11.26
Since inception*	-17.94	-13.46
Since inception* (annualized)	-8.57	-6.34

* 17 January 2018 ** All Countries World Index (with dividends net of taxes). Ticker = NDUEACWF

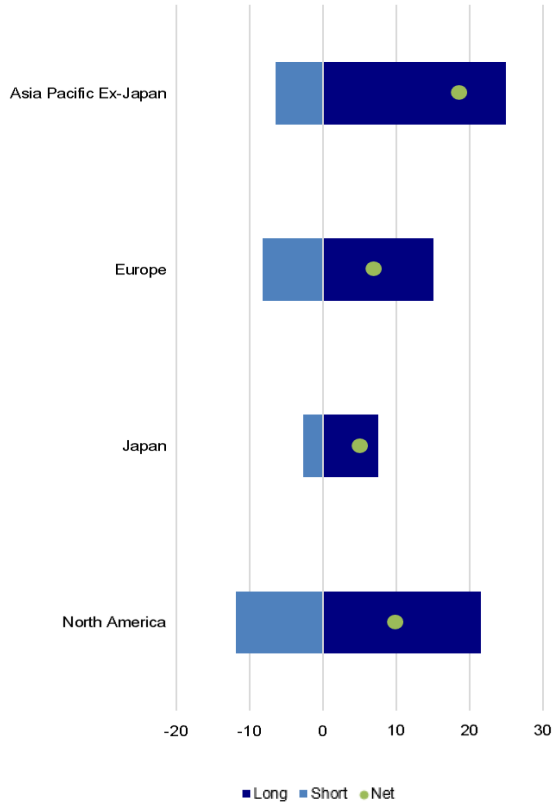
Portfolio characteristics

Number of securities - long book	44
Number of securities - short book	57
Weighted Average Market Cap ($ bn)	4.9
Median Market Cap ($ bn)	2.2
Long equity exposure (% of NAV)	+69.43
Short equity exposure (% of NAV)	-29.14
Gross exposure (Long - Short) (% of NAV)	98.6
Net exposure (Long + Short) (% of NAV)	40.3

Sector exposure (% NAV)



Geographical exposure (% NAV)



Alma Apis Global Long/Short Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

Main positions

Top 5 long positions	Country	% NAV
Information Technology	United States	7.08
Utilities	Germany	3.49
Utilities	Japan	3.14
Communication Services	Taiwan	2.81
Utilities	Spain	2.77
	TOTAL:	**19.30**

Top 5 short positions	Country	% NAV
Communication Services	United Kingdom	-1.29
Consumer Discretionary	Japan	-0.99
Industrials	United Kingdom	-0.98
Consumer Discretionary	Japan	-0.98
Information Technology	China	-0.93
	TOTAL:	**-5.16**

Investment manager's commentary

PERFORMANCE OVERVIEW (GROSS RETURNS)

We would have to go back to Dan's junior undergrad year at UW-Madison and "Black Monday," the first year he caught the "bug" of equity investing, to find a time we experienced anything like March of 2020. Unlike that crash, which lasted a day (although the Thursday and Friday which proceeded it were also unsettling), the volatility during March – with daily moves that averaged 5% – was, and hopefully remains, unprecedented.

To be continued on the next page.

Fund facts

Fund total net assets: $5.54 M

Fund domicile: Luxembourg

Fund type: UCITS SICAV

Base currency: USD

Management fee: 1.25% p.a.

Performance fee: 15% of net profits, with high watermark

Custodian, Administrator, Transfer Agent:
BNP Paribas Securities Services (LU)

Management company:
Alma Capital Investment Management (LU)

Investment manager: Apis Capital Advisors LLC (New York, US)

Portfolio manager: Daniel J. Barker

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

Countries where the fund is registered:
Luxembourg, United Kingdom, Germany, Singapore

Identifiers:
Institutional USD Capitalisation share class
Isin: LU1321566892 - Ticker: ALCGIUC LX Launch: 17 January 2018

Contacts

Hervé Rietzler (FR / CH / LU / IT) +352 28 84 54 19
Baptiste Fabre (FR / IR / UK) +33 1 56 88 36 55
Britt Lintner (UK / DE) +44 207 009 9240
info.investors@almacapital.com

…continued

Amidst that volatility, we have seen some extraordinary divergences during the first quarter. Within sectors and within the U.S. (although this applies globally as well), the range has been incredible with Energy down 50% (!!!) and Technology down just 12%. For perspective, Exxon has not cut its dividend as far back as we have records to 1952, and now trades with a dividend yield of 9% – the largest spread over U.S. Treasury yields that we have ever observed. Across geographies, we saw Asian markets hold up a bit better, with an average decline of about 20% while other emerging markets were all over the place including Brazil, down nearly 40%. Europe saw declines in the mid-to-high 20's and the U.S. held up rather well, as is typical in sell-offs like this, falling just shy of 20% for the S&P 500. The most impacted areas of the equity market were the smallest cap names, as illustrated by the Russell 2000 and Microcap indices which dropped slightly more than 30% during the quarter. All of these figures actually bottomed about 10% points lower in mid-March. One interesting fact is that the Shanghai Stock Exchange Composite Index, representing Chinese companies listed locally in China, was the world's best performing index, dropping just 12%. This is no sideshow either – it's the largest regional index outside the U.S. – representing over $4 trillion in market capitalization. In past selloffs of this magnitude such as the Asian Financial Crisis in the late 90's, the Technology Bubble, the Housing Crisis, etc., the peak-to-trough decline in the U.S., as a general rule of thumb, has been about one-half the decline of non-U.S. markets. The U.S. is a global safe-haven and this relationship illustrates that effect. While it's too soon to judge, this past quarter might have revealed a shift in that historical relationship, as Asian countries have better controlled the coronavirus pandemic thus far.

With large-cap global indices down over 13% and small-cap down 21% during March, losing a bit over 5% in the month feels like a small victory. Geographically, losses during Q1 in the Apis Flagship Fund were primarily concentrated in Europe and Asia ex-Japan, while Japan was positive and North America fell modestly. From a sector perspective, losses were contained roughly equally across Healthcare, Technology and Industrials, while Consumer was flat and Financials added over 1%, aided by some successful short positions.

Despite the market carnage, there were a few long winners, predictably names in the gaming area stood out such as International Game Systems (Taiwan), Nexon (Japan, see below) and Evolution Gaming (Sweden). On the downside, a major disappointment was Amarin which fell dramatically on the last day of March when a judge ruled against the company on a patent case. While our position size was down significantly from last year (less than 2% versus 8% previously), the stock fell almost 70% on the news and cost performance more than 1.4% in the month (and slightly less than 3% during Q1). While there's been much written about how the judge got this wrong, courts are reluctant to overturn on appeal and we have moved on. Another meaningful detractor was Do & Co., which hit performance by 1.5% in March (and slightly more than 1.7% during the quarter). Do & Co. has been a quality compounder as a high-end caterer to airlines and major events worldwide, but took a direct hit as end customers like British Airways and Formula 1 either shutter or radically curtail operations. Here to, we have reluctantly moved on as the company has just completed a major investment phase setting them up for growth that now looks distant.

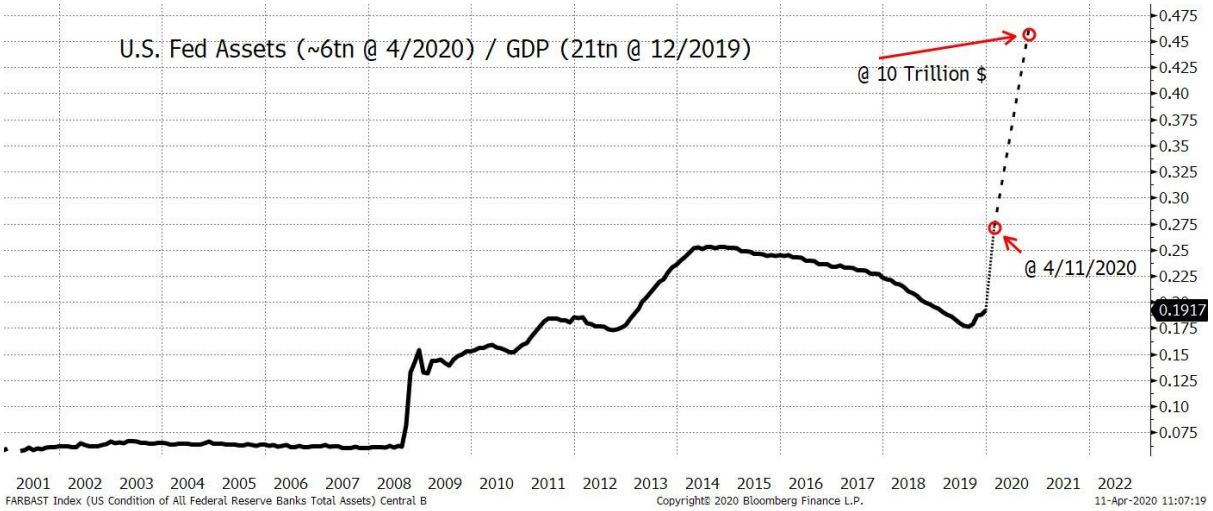
On the short side, there were a long list of winners with one notable exception. One of our favorite categories of shorts is “melting ice cubes” or companies that we think are managing against secular trends that make business an uphill struggle.

Movie theaters, for example, worked wonderfully as the immediate impact of social distancing accelerated (and more like provided rocket boosters) the inexorable decline in movie attendance. Having fallen more than 70% since late February, with one exception we have covered these positions as it now comes down to bankruptcy/bailouts where we don’t think we bring any special edge. The only notable short detractor was our position in a volatility ETF. We have had a rewarding, yet small farm position here for the past decade. The security is structurally flawed in that it is designed to decline in value over any reasonable investment horizon. This year, however, we made the mistake (in hindsight) of adding to the position when it rose and then covering partly when the pain became too large. March saw this position up 9x over two weeks before falling 70% from the peak until the end of the month – an unprecedented move in an unprecedented month. The only remotely similar experience came in 2011 when the ETF rose 500%, although it still ended that year down 50%. With a price in 2010 over $1.6 BILLION per share (not a typo) versus $250 today, the structure of this volatility ETF makes it an unbelievably bad investment and it remains a good short.

PORTFOLIO OUTLOOK AND POSITIONING

The current economic situation is unprecedented and the range of potential outcomes extremely wide. A notable factor is the heretofore unimaginable trillions of dollars of fiscal and monetary stimulus. By the measure of the U.S. Federal Reserve’s assets as a percent of GDP, this stimulus may be as much as 3x the size of the funds spent during the 2008 Financial Crisis taking the Fed’s balance sheet to $10 trillion. This is partly because the interest rate cuts no longer accomplish much now that they are approaching zero. In addition to the U.S., Japan, Europe (E.U.), China, and a multitude of other countries around the world are implementing stimulus measures on the order of 10% +/- of GDP, equating to trillions more. The numbers are hard to put into perspective as they are orders of magnitude larger than historical figures and most people (including financial professionals) barely understand how and where the money will be spent.

It’s impossible to evaluate portfolio positioning without considering how this stimulus may impact our stocks. While stimulus may help to avoid a seizure within our financial markets, it’s less clear how it can improve corporate earnings. There is a scenario where stocks could rise despite deteriorating fundamentals, effectively driving valuations higher. In the most extreme case of intervention, governments are buying stocks. This is nothing new in Japan, Switzerland or sovereign wealth funds in countries like Norway. Once it starts, there doesn’t seem to be a practical limit. Japan, for example, has become the top holder for most of its domestically listed companies. During normal market environments, this government intervention is a nuisance for the most part. However, this current surge in involvement needs to be respected. As such, it will remain incumbent upon us to comb through each existing position and potential candidates, as well as the portfolio overall, to understand our exposure to this risk factor.



As we consider our path going forward, it helps to think about our positions in different buckets. On the long-side, we observe three types of opportunities:

1. There are good, solid companies that typically fall into the compounder bucket. Sales and earnings of these companies will hold up better than average and we feature a few examples such as solar utilities, Nexon and Sinbon below. While the "best-of-breed" amongst the large-cap companies have barely budged, plenty of opportunities exist in this category on the smaller side.
2. There are companies obviously hurt by this recession; some are services or products that will bounce back quickly while others may take more time. We are mostly focused on those that we think will recover quickly, although we are also willing to consider situations that may take more time so long as they are cheap enough and have the balance sheet to stick it out. Names highlighted below such as Fila or TPL fit into this bucket.
3. Those companies whose business may be altogether impaired and for whom the investment thesis pivots on the length & depth of the recession as well as the likelihood of a government bailout. While "moral hazard" investments such as airlines could be spectacular recovery stories, we have tended to shy away from this area as we have little confidence or edge picking winners and losers of these political negotiations.

On the short side, our focus has shifted to circling around those shorts that have yet to participate. Some areas where we think downside could still exist include software as a service ("SaaS") companies that are economically exposed but remain valued as if they are annuities immune to the cycle. With valuations multiples higher than previous troughs and unrealistic estimates should the downturn sustain, several companies look particularly susceptible to us. Additionally, as we think about the eventual climb out of this malaise, it will be important to avoid shorts that will likely spike upwards simply because they survived. We continue to cover these names, as we have over the past weeks, and rotate into names that are less leveraged to the severity of the pandemic.

INVESTMENT HIGHLIGHTS

Compounders with COVID-19 Antibodies

- ***Solar – ($200mm to $1.5bn Market Cap, Europe/Asia):*** These include West Holdings (Japan), Encavis (Germany), Solaria (Spain), and 7C Solarparken (Germany). These are operators of solar farms, wherein they buy solar panels, install & connect them to the power grid, and sell renewable power. They have set pricing and effectively guaranteed volumes leaving them with almost no economic risk and decades of revenue visibility. Their costs are very minor and entirely fixed as the primary fuel is sunshine. Accounting conventions depress reported earnings as the panels are depreciated over 20 years despite many indications that they last 40+ years. Moreover, the prices of these panels keep falling at a steady clip. The industry has incredible tailwinds as Europe is considering offering NEGATIVE borrowing rates for these operators and banks are anxious to lend at exceptionally high leverage ratios into the ESG theme, along with investors who can't seem to get enough ESG shares. In addition, the existing nuclear and coal generation is steadily being closed as a result of EU mandates to reduce carbon emissions. The recent market sell-off has created some nice buying opportunities – Encavis, for example, fell from €12 to €7, putting it on less than 10x cash flow. This theme accounts for some of the larger positions in our Funds today.

- ***Nexon Co, Ltd. ($14bn Market Cap, Korea):*** Nexon, a South Korean video game developer (listed in Tokyo) that specializes in online PC games, is another portfolio company that should benefit from the current environment and social distancing. While unfamiliar to most Western video game players, the company owns popular IP in Asia with "Dungeon & Fighter" in China and "Maple Story" in Korea. Both have remained top-played games in their respective countries for over a decade and serve loyal user bases that have made them steady cash cows for Nexon. The company has grown at almost 20% annually for the past decade with exceptional cash flow generation, resulting in nearly 1/3rd of the share price now being held in cash. While the ebbs and flows of updates and releases can impact sentiment and valuation, this company has demonstrated an ability to navigate the fickle gaming world and deliver some of the most stable profits in the sector. Valuation is surprisingly low at just 10x earnings (excluding cash) especially considering that this company may see an uplift in the current environment.

- ***Sinbon Electronics ($1bn Market Cap, Taiwan):*** Sinbon Electronics is a diversified cable-assembly maker based in Taiwan. The company was historically a distributor for Hirose connectors, but grew its design capabilities and ODM relationships to offer high-mix, low-volume solutions for customers in more rapidly growing industries such as medical, green energy, and industrial. While the company does have factories in China and saw production capacity there decline to 30-40%, inventory covered shipments as revenues were still able to grow 14% year-over-year through February. Production capacities have since returned to normal, and while some customers may experience weaker demand due to COVID-19, we expect increased demand for assemblies going to logistics and medical equipment. Shares have rebounded since their mid-March

decline, but are still attractive at 15x for a resilient company that continues to grow earnings at a double-digit rate as it has for the last 20 years.

Near-term challenges, but will survive and too cheap

- ***Fila Holdings ($1.6bn Market Cap, Korea):*** We've talked about Fila in our letters before (it's a popular shoe/athleticwear maker), but disarray in the markets has created a unique arbitrage opportunity in the stock: 2 weeks ago, Fila's enterprise value was actually below that of its 53% ownership stake in publicly-traded Acushnet (ticker: GOLF). The market was implying the core Fila business is worthless, despite it generating $190mm of operating profit in 2019. We quickly identified this dislocation and bought the stock. While up 60% since then, the core Fila business is still only trading at 2x its 2019 operating income – a valuation that is just not sensible and still presents a great upside opportunity.

- ***Texas Pacific Land ($3.6bn Market Cap, United States):*** Texas Pacific Land (TPL) is one of the very few names in the Energy sector that has truly impressive compounder characteristics. TPL is a royalty company controlling the world's best land for fracking oil in the Permian area of Texas. These royalty rights have existed for nearly a century, but only in the last 15 years was drilling activity ramped up to focus on fracking. TPL rode this trend better than any company in the industry as their stock rose from $6 to $900 with just a handful of employees effectively opening envelopes and cashing checks. TPL gets paid based on how much oil is drilled and what price is paid. The recent oil crash will hurt, but profits will stay strongly positive and volumes in the Permian will be the least affected as these are some of the lowest cost wells in the country. As global production adjusts, TPL will directly benefit from a price recovery and drilling recovery and this will continue for years (if not decades) as TPL's land is less than 10% drilled. Moreover, fracking requires significant water and TPL has seen a dramatic increase in their new water royalty business which both sources fresh water and charges disposal royalties for used fracking water. The recent sell-off took shares from $900 to $300, putting them on less than 10x trailing earnings. An eventual recovery in oil combined with increased drilling activity and the new water business will help earnings get back to where they were and potentially higher. TPL should also get a boost from a recent activist-driven change in corporate structure allowing, among other things, passive funds to buy the shares along with an expected increase in Street coverage.