ALMA CAPITAL

Alma Hotchkis & Wiley US Large Cap Value Equity Fund

Hotchkis & Wiley

A sub-fund of Alma Capital Investment Funds SICAV

As of 30 September 2020

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 strategy mirrors the Large Cap Fundamental Value strategy managed by the Investment manager since 1980

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
- George Davis, the CEO of Hotchkis & Wiley and senior portfolio manager of the fund, has over 30 years of investment experience.
- Hotchkis & Wiley manages $25 billion

Cumulative performance (%)

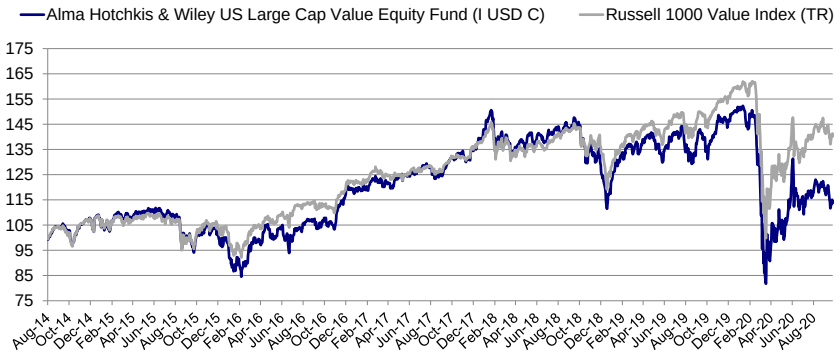
	1 M	3 M	6 M	YTD	1Y	3Y	ITD	ITD (annualized)
I USD C shares	-4.67	-0.14	18.43	-23.66	-17.97	-12.26	14.62	2.24
R USD C shares	-4.67	-0.15	18.46	-23.64	-17.94			
Russell 1000 Value Index (TR)	-2.46	5.59	20.68	-11.58	-5.03	8.11	41.20	5.76

Fund launched on 6 August 2014

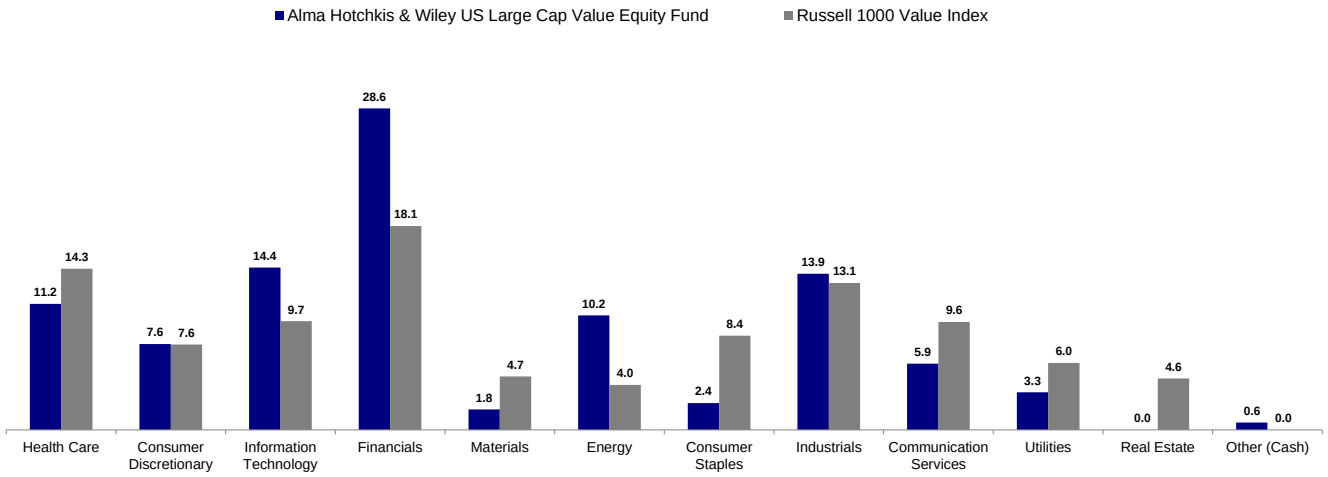
Portfolio characteristics

Main indicators	Fund	Index
No. of securities	56	850
Weighted Average Market Cap ($ bn)	105.3	116.5
Median Market Cap ($ bn)	28.9	9.6
Projected P/E Ratio FY2 (x)	11.0	15.7
Price / Normal Earnings (x)	6.3	14.1
Price / Book (x)	1.1	2.0
Price / Sales (x)	0.9	1.6
Projected EPS Growth (%)	6.2	5.8
Active share (%)	79.8	-

Performance (Indexed - Base 100)



Sector breakdown (% NAV)



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Top 10 positions details

Security name	Sector	% NAV
GENERAL ELECTRIC CO	Industrials	5.28
AMERICAN INTERNATIONAL GROUP	Financials	4.86
CITIGROUP INC	Financials	4.08
WELLS FARGO & CO	Financials	4.02
GENERAL MOTORS CO	Consumer Discretionary	3.29
ORACLE CORP	Information Technology	3.20
ANTHEM INC	Health Care	3.11
FEDEX CORP	Industrials	2.92
GOLDMAN SACHS GROUP INC	Financials	2.83
CUMMINS INC	Industrials	2.71
	TOTAL:	**36.31**

Investment manager's commentary

Market:
The S&P 500 Index returned +8.9% in the third quarter of 2020 and is now in positive territory year-to-date (+5.6%). Two-thirds of S&P 500 companies beat consensus revenue expectations and 85% exceeded earnings expectations. Corporate America's strong showing trumped continued worries about the prevalence of COVID-19 and Congress' stalemate over a new stimulus package. Meanwhile, the Fed continues to signal easy monetary policy for the foreseeable future, maintaining a subdued economic outlook. COVID-19 cases reaccelerated for the first time in months, but hospitalizations and deaths remained downward trending—there was a large jump in tests administered which could explain the mixed developments.

Growth outperformed value across geographies and across market capitalizations. Based on information from the Kenneth French/Dartmouth data library, value has underperformed growth over the last 10 years by the largest magnitude on record. Also, for the first time in the nearly 100-year old dataset, growth has outperformed value over a 20-year period. This has led to a colossal divergence in valuations. Apple, for example, is a very good business, with a great balance sheet, an iconic brand, and a loyal customer base. For half the price of Apple, however, you could buy all the banks in the S&P 500. The bank group (again, at half the price) generated more than twice the revenue and twice the earnings of Apple. For the price of Tesla, you could buy the next four largest global auto manufacturers and have money left over. Tesla generated revenue last year of $25 billion and the other four autos generated revenue of $743 billion; Tesla's earnings were negative while the other four autos generated $38 billion in earnings. $38 billion in earnings compared to $25 billion in revenue seems like a better option at the same price, let alone a discount.

Perhaps more important to our client base than the value-growth dichotomy is the equally noteworthy divergence within value, both in terms of trailing performance and future opportunity. The strongest performers within value have been concentrated in market segments with low correlations to economic growth, like healthcare and consumer staples. The weakest performers within value have been concentrated in market segments where near-term forward earnings estimates have declined meaningfully, in some cases by 30% or more. Financials, energy, and cyclical industrials comprise a disproportionate share of these examples. The positions we have in these areas have underperformed, though we view the forthcoming earnings declines as temporary. A year or two of depressed earnings reduces our intrinsic value estimate, but this impairment of value is certainly not commensurate with actual share price declines. We are unwilling to take meaningful balance sheet risk because a weak balance sheet can significantly impair capital via shareholder dilution or worse. This steadfast risk aversion allows us to tolerate temporary earnings volatility and take advantage when market values decline more than intrinsic values. We remain selective, however, and recognize that certain market segments and/or individual companies may not recover—we look to avoid businesses with uncertain long-term outlooks or insurmountable secular pressures.

Financials represent the portfolio's largest absolute weight, largest relative weight, and largest detractor to relative performance. Banks represent the portfolio's largest exposure within financials. Earnings estimates have declined due to the combination of increased loan loss provisions, a ban on share repurchases, slower asset growth, and lower interest rates. Accounting rules require banks to estimate loan losses upfront based on prevailing economic conditions. The substantial provisions taken during the first half of 2020 could end up being too high considering the severity of the economic outlook at the time. Banks' balance sheets were quite healthy entering 2020, as substantial capital had been built in the previous decade. The provisions already taken combined with the excess capital—not to mention the pre-provision income being generated—provides a meaningful cushion to absorb elevated credit losses. Further, banks' business models are less interest rate sensitive than generally believed. The large money center banks have diverse revenue streams, some of which have little/no interest rate sensitivity. For less-diversified banks, the net interest margin is more closely tied to the yield spread earned on loans than it is from the rate sensitive benefit they get from funding a portion of their earning assets with non-interest bearing liabilities. The banks' benefit of free funding dissipates as rates decline, but the yield spread on loans exhibits countercyclical traits (i.e. the yield spread often widens when rates decline as banks tighten lending standards). This has resulted in relatively stable net interest margins over the past decade despite persistently falling interest rates over that period.

The dichotomy between growth and value is significant and pervasive, but so too are the opportunities within value. The portfolio's active share relative to the value benchmark is at its highest level in at least a decade, and our valuation discount to the value benchmark is near record levels. This reflects our conviction that select opportunities are exceptionally attractive. The recent environment has not been conducive to our approach, but we are confident that patient investors will be rewarded by the rarely observed risk-adjusted potential of the current portfolio.

Attribution: 3Q 2020
The portfolio underperformed the Russell 1000 Value Index in the third quarter of 2020. The portfolio's value-focused approach hurt relative performance as the most deeply discounted stocks underperformed. For example, index stocks trading at a discount to book value lagged the overall index by about 10 percentage points in the quarter; the portfolio had about one-third of the portfolio invested in such stocks compared to just 10 percent for the Russell 1000 Value. Stock selection in financials, along with the overweight allocation and stock selection in energy detracted from performance. Positive stock selection in technology and industrials helped. The largest detractors to relative performance in the quarter were AIG, Citigroup, General Electric, National Oilwell Varco, and Hess; the largest positive contributors were FedEx, Cummins, Corning, General Motors, and TE Connectivity.

Largest New Purchases: 3Q 2020
Baker Hughes is one of the largest oilfield services companies and has expertise in gas turbines and industrial digital solutions. The combined impact of COVID-19 on demand and the Saudi/Russian surge in production have created severe dislocations throughout energy markets. Given Baker Hughes' investment grade balance sheet, strong liquidity position, and technological expertise, it is well positioned to weather the cycle while providing upside in an eventual recovery. Baker Hughes trades at a low multiple of normal earnings considering the size and quality its businesses.

Fund facts

Fund total net assets: $31.9 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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