ALMA CAPITAL

Alma Hotchkis & Wiley US Large Cap Value Equity Fund

Hotchkis & Wiley

A sub-fund of Alma Capital Investment Funds SICAV

As of 31 December 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 $32 billion

Cumulative performance (%)

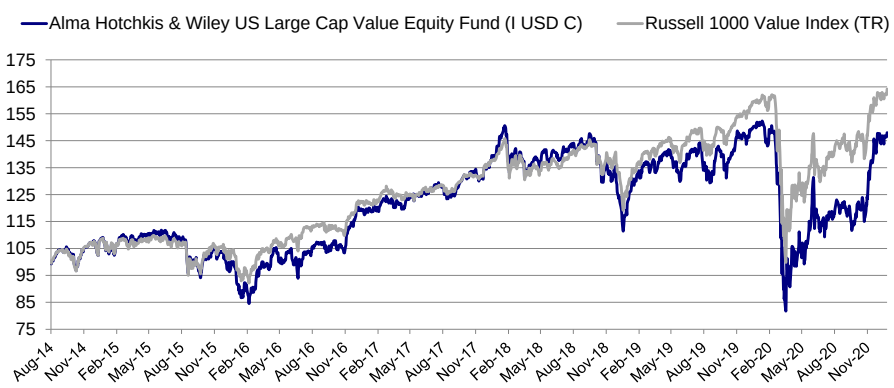
	1 M	3 M	6 M	YTD	1Y	3Y	ITD	ITD (annualized)
I USD C shares	5.47	29.11	28.93	-1.44	-1.44	6.75	47.98	6.31
R USD C shares	5.47	29.09	28.90	-1.42	-1.42			
Russell 1000 Value Index (TR)	3.83	16.25	22.75	2.80	2.80	19.32	64.15	8.04

Fund launched on 6 August 2014

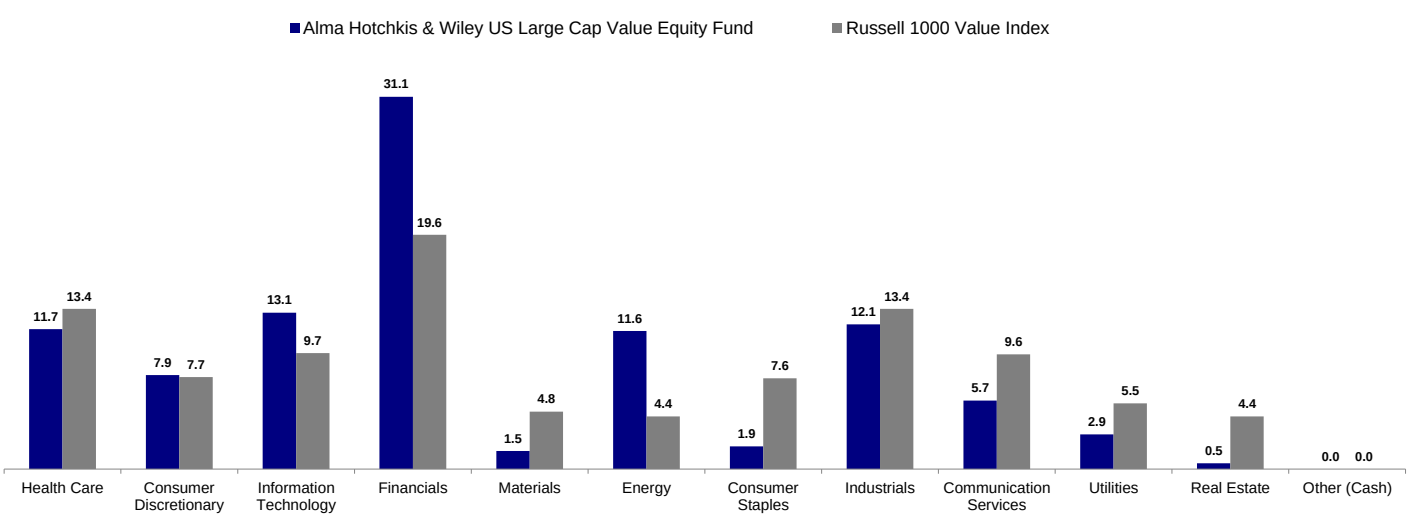
Portfolio characteristics

Main indicators	Fund	Index
No. of securities	57	854
Weighted Average Market Cap ($ bn)	116.3	128.1
Median Market Cap ($ bn)	32.3	11.5
Projected P/E Ratio FY2 (x)	12.9	17.0
Price / Normal Earnings (x)	8.0	15.8
Price / Book (x)	1.4	2.3
Price / Sales (x)	1.2	1.9
Projected EPS Growth (%)	6.1	5.7
Active share (%)	78.6	-

Performance (Indexed - Base 100)



Sector breakdown (% NAV)



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Top 10 positions details

Security name	Sector	% NAV
AMERICAN INTERNATIONAL GROUP	Financials	5.27
CITIGROUP INC	Financials	5.16
GENERAL ELECTRIC CO	Industrials	5.06
WELLS FARGO & CO	Financials	4.47
GENERAL MOTORS CO	Consumer Discretionary	3.34
ANTHEM INC	Health Care	3.23
GOLDMAN SACHS GROUP INC	Financials	3.08
ORACLE CORP	Information Technology	2.83
BANK OF AMERICA CORP	Financials	2.58
MAGNA INTERNATIONAL INC	Consumer Discretionary	2.54
	TOTAL:	**37.54**

Investment manager's commentary

Market:

In 2020, investors witnessed the devastating impact of a worldwide pandemic on the global economy. While the effect was severe, investors perceived it as a transitory event, and recognized the stimulative influence of massive monetary and fiscal intervention. These interventions helped propel the S&P 500 Index which returned +18% for the year. Value investors were largely left behind; however, as growth stocks soared +38% and value stocks returned a modest +3%. This represented the largest gap between the Russell 1000 Growth Index and the Russell 1000 Value Index ever observed over a calendar year, and if history is any guide, sets the stage for a value comeback. We had a glimpse of what that comeback might look like during the fourth quarter of 2020. Value stocks outperformed, buoyed by the economic ramifications of new COVID-19 vaccines and another round of fiscal stimulus.

In our experience, when a major asset class underperforms for as long as value has, most investors are under-allocated to the asset class. Signs of this neglect include incessant rhetoric about the asset class' demise in the financial media, unusually wide valuation gaps, and the fatigue/frustration asset allocators experience when compelled to repeatedly explain why they have invested in such a lagging strategy. When the economic winds shift, however, we believe the out-of-favor asset class will enjoy a substantial and sustained period of outperformance. Following the tech bubble, for example, value outperformed growth seven consecutive years by more than 100 percentage points cumulatively. We have learned time and time again, that patience is rewarded for those that stay focused on fundamentals and valuation.

Despite value outperforming growth in the fourth quarter, the Russell 1000 Value continues to trade at a larger than normal discount to the Russell 1000 Growth. Also, despite the strategy outperforming the value index, the portfolio continues to trade at a larger than normal discount to the Russell 1000 Value. In fact, the portfolio's discount remains near record levels. The portfolio trades at 8x normal earnings, which is more than 10% below its long-term average. The Russell 1000 Value, however, trades at 16x normal earnings, which is more than 20% above its long-term average. At the end of 4Q 2020 the portfolio's valuation was just half that of the index, a discount that has only been exceeded once before—at the beginning of 4Q 2020. The portfolio's 4Q outperformance narrowed the gap modestly but we anticipate considerably more reversion ahead.

To achieve such a large valuation discount, a portfolio must not only be invested in stocks trading at substantial discounts to intrinsic value but must also be very different than the index. The portfolio is both. Its active share is 87, which means that 87% of the portfolio is positioned differently than the Russell 1000 Value. While the portfolio is always highly active, 87 is among the highest in the strategy's history. Among their top 10 positions respectively, the portfolio and the index share only one common name (Bank of America). Of the portfolio's top 10 positions, 8 trade at single digit multiples of normal earnings and 6 trade at single digit multiples of consensus forward earnings (FY3), compared to just one for the index.

Financials and banks remain the portfolio's largest sector and industry weights, respectively, both in absolute terms and relative to the benchmark. Banks have been an unloved industry for years as scars from the financial crisis remain and regulatory uncertainties linger. When it appeared that the market was finally beginning to recognize the industry's strong recurring profitability and its massive de-risking efforts over the past decade, the pandemic caused investors to shun banks regardless of underlying fundamentals or valuations. Among the most important of these de-risking efforts was a substantial increase in capital held on banks' balance sheets. In addition to having excess capital, banks took large provisions throughout the year for potential credit delinquencies that may occur in the future. While these provisions hit 2020 bank earnings, the industry continued to produce compelling pre-provision income, even in the low interest rate environment. The combination of having strong balance sheets, large reserve pools, and ongoing profitability gives us confidence that banks have more than enough capacity to withstand a severe economic downturn much worse than we have experienced thus far. Yet many banks trade at single-digit multiples of normal earnings, which we see as extremely attractive in this market. Further, the Federal Reserve recently lifted stock buyback restrictions. Many banks are in a position to return considerable capital to shareholders. This would be accretive to earnings per share thereby improving valuations even more.

Calendar year 2020 was challenging in a myriad of ways. Looking through our value investor lens, the year tested our patience and conviction. We held steady in our commitment to the principles of value investing and worked as a team to ensure existing investments remained prudent and to find new ideas in an ever-changing environment. We will continue to do both. Our team remains entirely intact, the firm is healthy, and we are optimistic that our clients will be rewarded by our commitment and effort. It was reassuring to observe our time-tested investing style come back into vogue during the most recent quarter and we are optimistic that this reversion could be powerful and lasting. We look forward to the new year with enthusiasm.

ATTRIBUTION: 4Q 2020

The Hotchkis & Wiley Large Cap Fundamental Value portfolio outperformed the Russell 1000 Value Index in the fourth quarter of 2020 by a wide margin. The portfolio has long exhibited valuation characteristics at a discount to the Russell 1000 Value, which had been a major stylistic headwind throughout 2020 until reversing in the fourth quarter. Positive stock selection drove about 80% of the outperformance, as the portfolio outperformed the index in 9 of 11 sectors. Positive stock selection in financials, industrials, consumer discretionary, and energy were the largest contributors to performance; the overweight exposure to financials and energy were also modestly helpful. Stock selection in consumer staples and technology were modest detractors. The largest positive contributors to relative performance in the quarter were General Electric, AIG, Citigroup, Magna International, and CNH Industrial; the largest detractors were GlaxoSmithKline, Unilever, Microsoft, PPL Corp., and Oracle.

Over the calendar year, the strategy underperformed the Russell 1000 Value Index. The value-focused approached that helped during the fourth quarter hurt over the course of the entire year. Accordingly, the largest contributors/detractors over the year were largely opposite of what occurred during the fourth quarter. Stock selection in financials and the overweight position in energy were the largest detractors, while stock selection in technology was the largest positive contributor.

LARGEST NEW PURCHASES: 4Q 2020

Bristol-Myers Squibb is a large pharmaceutical company that trades at a discount to its existing portfolio of marketed drugs. Based on its valuation, we are receiving its pipeline for free, yet the company has a long history of successful drug developments, including the first immuno-oncology drugs. It is diversifying to the portfolio, has meaningful valuation support, and the potential for a successful pipeline provides considerable upside.

Host Hotels is a REIT that owns about 80 hotels primarily in the US. It trades at a discount to the replacement cost of its assets and at an attractive multiple of normal earnings. It has well-positioned hotels and an investment grade balance sheet. Travel has been disrupted due to the COVID-19 pandemic, but Host's hotels are in markets that serve both leisure and business travel. Delays in business travel may cause it to underearn temporarily but this should not impair the long-term normal earnings power of the franchise.

Fund facts

Fund total net assets: $37.19 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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