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Alma Recurrent Global Natural Resources Fund

Data as of	Fund AUM	Fund Launch
30 December 2022	**$68,969,913**	**29 June 2018**

ALMA CAPITAL

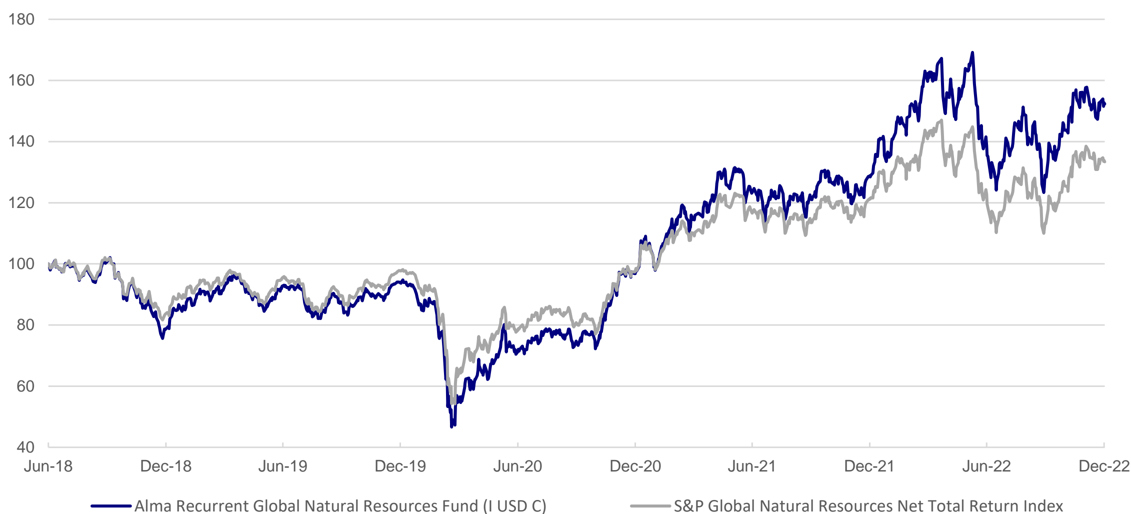
Investment Strategy

- Fund's investment objective is to seek total return by investing in global natural resource-related companies.
- Typical industries in which the fund invests are 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 (1)

- SEC-registered Houston-based independent investment advisor founded in 2017, with +$500m in AUM.
- Portfolio is managed by Mark Laskin and Bradley Olsen, founders of the firm, who both worked at BP Capital Fund Advisors and have extensive experience in energy investing.
- Specialised in energy and natural resources investment.

Performance History (29 Jun 2018 - 30 Dec 2022) (2)



Fund ESG Recognitions

Fund Performance Summary (I USD C Share Class) (2)

	Return				Annualised Return		
	1M	6M	YTD	ITD	1Y	3Y	ITD
Alma Recurrent Global Natural Resources Fund	-3.40%	12.45%	18.03%	52.29%	18.03%	17.36%	9.78%
Index*	-3.08%	11.52%	9.59%	33.36%	9.59%	10.86%	6.60%

*SPDR S&P Global Natural Resources ETF as proxy

Volatility since Launch (%) 29.60%

Please refer to our website to find performances for other shares classes.

Alma Capital Commitments

Monthly Fund Performance (I USD C Share Class) (2)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2022	5.15%	9.21%	8.51%	-3.75%	5.36%	-16.94%	4.25%	0.96%	-9.92%	11.97%	9.65%	-3.40%	18.03%
2021	0.31%	11.61%	4.67%	5.24%	5.94%	-2.96%	-0.99%	-1.22%	-0.07%	4.89%	-5.56%	7.68%	32.15%
2020	-9.90%	-10.94%	-25.22%	17.99%	4.23%	3.65%	2.57%	4.78%	-4.52%	-0.91%	22.38%	8.89%	3.63%
2019	11.12%	2.22%	2.36%	1.25%	-9.30%	9.71%	-1.89%	-6.61%	2.65%	0.78%	1.55%	5.56%	19.01%
2018							0.60%*	-3.50%	3.63%	-9.70%	-4.78%	-8.47%	-20.83%

*Performance has been calculated since the share class launch

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(1) Represents the views of Recurrent Investment Advisors LLC. Alma Capital Investment Management does not take any responsibility for these views and does not necessarily endorse or support such views.
(2) Source: Alma Capital Investment Management. The Fund's performance above is shown net of all fund fees. Past performance is not a reliable indicator of future returns.
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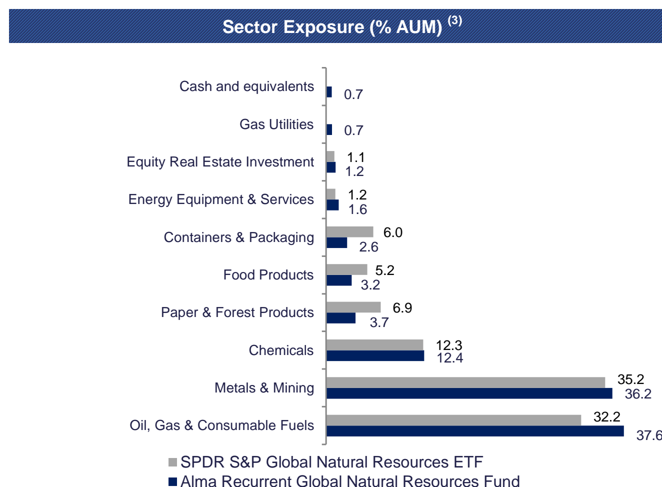
Fund Characteristics

Portfolio Characteristics [3]

Main indicators	Fund	Index*
No. of securities	43	90
Weighted Average Market Cap ($ bn)	61.3	85.3
Median Market Cap ($ bn)	36.2	21.5
Price/Earnings (x)	6.6	7.2
Price/Book (x)	1.5	1.7
Price/Sales (x)	0.7	0.9
Estimated Long Term Growth (%)	3.4	3.7
Active Share (%)	58.3	-

*SPDR S&P Global Natural Resources ETF as proxy

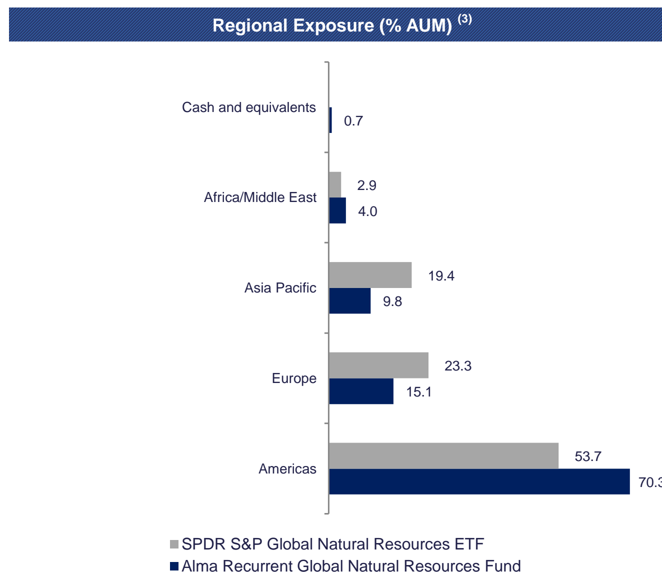
Sector Exposure (% AUM) [3]



Top 10 Issuers [3]

Issuer name	Sector	% AUM
CENOVUS ENERGY INC	Oil, Gas & Consumable Fuels	5.78
TECK RESOURCES LTD-CLS B	Metals & Mining	4.69
ANGLO AMERICAN PLC	Metals & Mining	4.03
FREEPORT-MCMORAN INC	Metals & Mining	4.01
NUTRIEN LTD	Chemicals	3.99
SHELL PLC	Oil, Gas & Consumable Fuels	3.86
ALCOA CORP	Metals & Mining	3.83
SUNCOR ENERGY INC	Oil, Gas & Consumable Fuels	3.73
CONOCOPHILLIPS	Oil, Gas & Consumable Fuels	3.44
PHILLIPS 66	Oil, Gas & Consumable Fuels	3.33
	TOTAL :	**40.70**

Regional Exposure (% AUM) [3]



Key Facts

Issuer / Manager	Alma Capital Investment Funds / Alma Capital Investment Management		
Fund Type	Luxembourg UCITS SICAV		
Share Classes	I USD C	I EUR C	R EUR-H C
ISIN-Code	LU1823602369	LU1845388146	LU1823603680
BBG Ticker	ARGNIUC LX	ARGNIEC LX	ARGREHC LX
Currency	USD	EUR	EUR
Management Fee p.a. [4]	0.95%	0.95%	1.45%
Tax d'abonnement p.a.	0.01%	0.01%	0.05%
Initial Issue Price	$100	€ 100	€ 100
Launch Date	29 June 2018	29 June 2018	11 March 2022
Subscription and Redemption Cut-Off	12:00 p.m. CET (T-1)		
Valuation Day (T)	Daily		
NAV Publication	Daily, published on a T+1 basis		
Settlement	T+3		
Depositary, Administrator, Transfer Agent	BNP Paribas S.A.		
Registered Countries [5]	France, Germany, Luxembourg		
SRRI	7		

(3) Source: Alma Capital Investment Management. (4) Management Fee is payable monthly to the Management Company and is calculated on each Valuation Day on the basis of the Net Asset Value of the relevant Share Class. The Investment Manager is remunerated by the Management Company out of the Management Fee. (5) Registered countries where at least one share of the fund is registered.
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Commentary - Recurrent - December 2022 (6)

Portfolio Discussion

During the month of December 2022, the Alma Recurrent Global Natural Resources Fund returned -3.40% net of fees, just lagging the S&P Global Natural Resources Index's -3.08%. The portfolio's overweight positions in the metals and mining sectors significantly added to performance, while overweight energy positions detracted from relative performance.

Investment discussion

High profits, but low CAPEX? Looking for a missing variable to explain CAPEX

In the summer of 2022, Recurrent published a 60+ year analysis of the relationship between CAPEX and inflation. While many investors and academics focus on the role of rate hikes in reducing demand (and inflation), our analysis showed that commodity-driven inflationary episodes typically do not conclude until commodity CAPEX meaningfully increases. Higher CAPEX drives higher supply, which tends to flood the market within 3 years of peak CAPEX, secularly reducing commodity prices and depressing broad PPI and CPI inflation indicators (i.e. mid-1980s and mid-2010s).

If commodity CAPEX is necessary to secularly reduce inflation, then understanding what drives CAPEX is essential. Most investors (and politicians) believe companies should increase CAPEX if expected returns exceed the cost of capital (ROIC > WACC). While expected return is a key driver of the decision to allocate CAPEX, we have noted in prior letters that as of 2022, despite high profitability, the commodity CAPEX cycle has yet to begin. Many project ROICs exceed the cost of capital, and yet CAPEX remains low. Why?

High profits are not enough; valuations are the most powerful incentive (or disincentive) for additional CAPEX

The simple and intuitive idea that "if returns exceed costs, then a company should grow IC" omits a key variable – how will this increased IC be valued by the market? Recurrent's investment methodology helps to shed light on this additional dynamic. Over time, a company's ability to generate returns on capital above the cost of capital (ROIC / WACC) should equal that company's enterprise valuation vs. the historical cost of invested capital (EV/IC). But the equation is bi-directional – a market that values a company at a low E\

$$\frac{\text{ROIC}}{\text{WACC}} = \frac{\text{EV}}{\text{IC}} \qquad \frac{\text{Recurring cash flow vs. asset value (\%)}}{\text{Cost of financing (\%)}} = \frac{\text{Market value of debt + equity}}{\text{Historical cost to build it}}$$

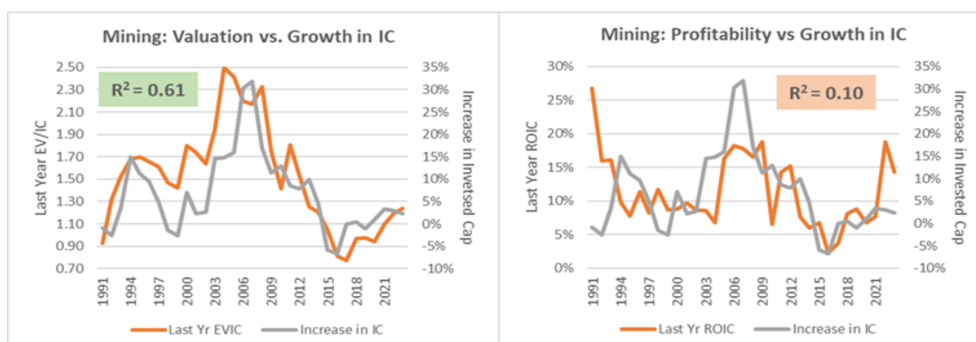
When invested capital is valued highly (high EV/IC), CAPEX is, in effect, being strongly encouraged by the market. A company with $1 of invested capital valued at $2 (EV/IC = 2x) will find it highly appealing to spend CAPEX and grow invested capital, effectively capturing this 2x premium. Conversely, a company with $1 of capital valued at 80c will find CAPEX – and growing IC – unappealing. After all, deploying IC with 15-20% expected returns is much less attractive if that IC will be valued at a 20% discount on day 1!

So if valuations suggest that IC growth will destroy value, companies are likely to withhold investment, returning cash and shrinking EV instead. In avoiding CAPEX and distributing cash, the "value" of a dollar returned would remain one dollar, accretive compared to the market's expectation of CAPEX-driven value destruction. We see that this framework is supported by historical evidence, which shows that inconsistent "capital discipline" is really a consistent response to market incentives.

History provides clear evidence across sectors that valuations are the primary CAPEX driver

History corroborates the perspective of higher valuations correlating to higher CAPEX levels, particularly in capital-intensive commodity industries.
Below we see that CAPEX cycles (reflected in sector-wide IC growth) have risen and fallen according to the shifting tides of valuation. IC growth peaked when valuations exceeded 2x EVIC, while valuations closer to 1x EVIC have stopped IC growth in its tracks. For example, we see that the unprecedented CAPEX surge of 2005-2010 was far beyond what ROIC metrics would have suggested, but exactly what we would expect when valuations were anticipating a long-term "China/BRIC boom." In stark contrast, today's non-existent IC growth in the face of high ROICs can only be explained as a reaction to bear market EV/ICs, seen on the left.

Exhibit 1: Metals and mining: history shows that CAPEX responds to valuation (left) much more than profitability (right)



Source: Recurrent research, public filings, and Bloomberg data.

Note: "Metals and Mining" sector includes FCX, RIO, BHP, GLEN, VALE, TECK, AAL.LN, FMG.AU, XTA.LN, FM.CN, ANTO.LN, AA, SCCO, ALB, MT.

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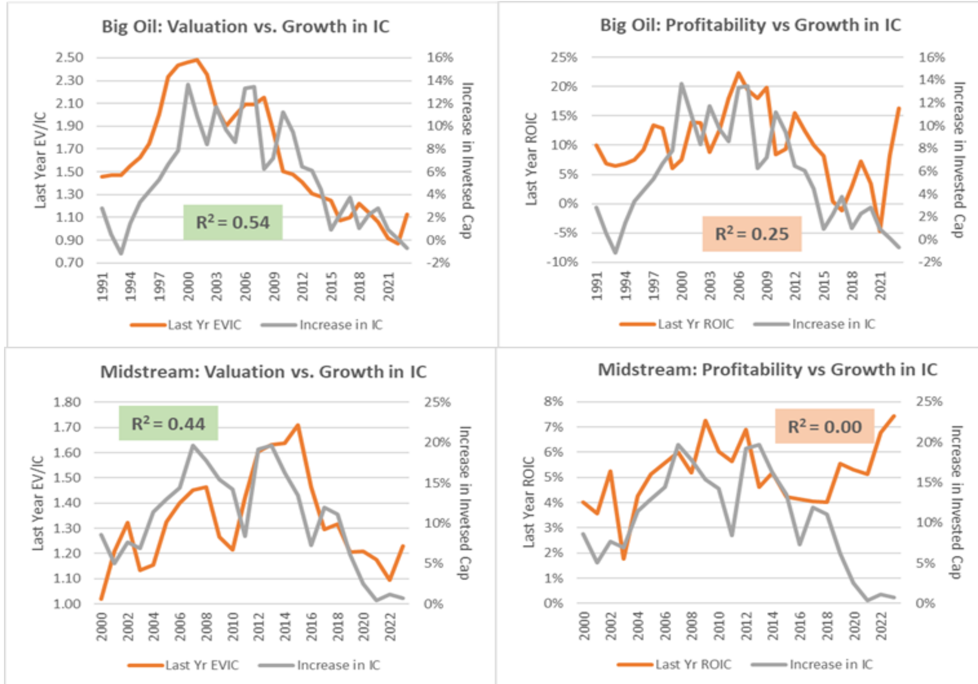
Notably, there are historical periods of time when the 2 variables – valuation and profitability – overlap. After all, many profitable periods saw peak or near-peak valuations, and many downturns see weaker valuations. But our regression analysis (shared in R-squared figures on each graph) shows that in all 4 sector studies featured here, that valuation is always a stronger driver. In these industries, profitability actually has a much weaker relationship with CAPEX.

Exhibit 2: For energy and midstream, the relationship holds – valuation is the key CAPEX driver for commodity industries



Source: Recurrent research, public filings, and Bloomberg data.

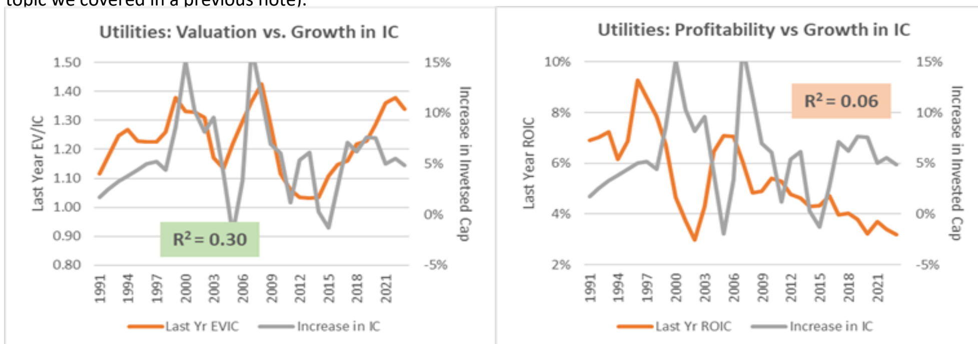
Note: "Big Oil" sector includes XOM, CVX, BP, SHEL, Amoco, Mobil, Unocal, Burlington, CNQ, SU, APC, HES, COP, EOG, PXD, DVN.

"Midstream" sector includes data starting in 2000. Includes KMI, EPD, ENLC, ET, WMB, PAA, MMP, TRGP, OKE, MPLX, MWE, PSXP, WES, LNG, TRP, ENB.

Exhibit 3: Amazingly, sectors with steadily deteriorating profitability will keep spending – if valuations permit

As we noted last month, the Big Tech space continues to spend at a record pace, supported by EV/ICs that remain between 3x to 4x (making any dollar of IC instantly worth $3 to $4). But Tech profitability remains robust (even if declining on the margin).

Meanwhile, in asset-intensive sectors where ROIC profitability is steadily declining (like utilities), CAPEX will continue at a high level as long as EV/IC valuations are supportive. For utilities, despite falling ROIC, EVICs have dramatically improved in the 2012-2020 timeframe, as investor excitement has grown around the potential for utilities to participate in the solar/wind buildout. As shown on the right, utilities' profitability has not benefitted from this massive renewable buildout (the falling ROICs and high debt loads of solar/wind is a topic we covered in a previous note).



Source: Recurrent research, public filings, and Bloomberg data.

Note: "Utilities" sector includes DUK, SO, ED, ENEL, AEP, E.ON, PEG, D, WEC, ES, XEL, DTE, AEE, PPL, and NEE.

In conclusion: cheap valuations will keep CAPEX low – CAPEX responds to encouragement from capital markets, and today's capital markets are offering little encouragement to commodity-levered businesses.

For natural resource, energy and midstream investors, inexpensive valuations offer a powerful signal that CAPEX may remain low in coming years, even as profitability remains robust. Excess profits are likely to continue to find their way back to investors, until valuations rise and dictate that a new CAPEX cycle is required. With valuations firmly in "bear market" territory, commodity CAPEX surge is likely years away.

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