BLUE ALPHA INVESTMENT MANAGEMENT

BlueAlpha BCI Equity Fund – Quarter 3 2018

Performance Period	Fund Return	Sector Average	Benchmark*
1 Year	**9.0%**	1.4%	4.2%
3 Years (annualised)	**7.7%**	4.3%	6.6%
4 Years (annualised)	**8.8%**	4.1%	6.5%
Since Inception (annualised)	**9.8%**	3.2%	5.8%

*Benchmark: Composite of SWIX to 31/10/2017; 75% JSE Swix / 25% MSCI All Country World Index from 01/11/2017
**Performance is reported for A Class, net of fees

Asset & Sector Allocation	
Cash	4%
Total Net Equity	96%
Basic Materials	16%
Consumer Goods	4%
Consumer Services	13%
Financials	24%
Healthcare	1%
Industrials	1%
Offshore	28%
Property	3%
Other	6%

Top 5 Domestic Holdings	Top 5 Global Holdings
FirstRand	Apple
Naspers	MasterCard
Capitec	Facebook
Standard Bank	Tencent
Anglo American	Broadcom

Portfolio Manager: Gary Quinn / Walter Jacobs
Commentary for the Quarter ended 30 September 2018

Performance
For the quarter, the fund returned 0.7% vs. the JSE Swix (-3.3%) and the benchmark (-0.8%) – the benchmark is a composite made up of 25% MSCI All Country World Index and 75% JSE Swix. On a 12 month basis, the fund has also outperformed, returning 9.0% vs. the JSE Swix's 0.9% and the benchmark's 4.2%.

Macro
The quarter saw new highs across US markets on the back of record earnings, despite trade concerns and rising US short rates. The biggest losers from rate increases have been Emerging Markets, as global investors rotate into safe-haven assets. The sell-off sees the 10-year SA Government Bond Yield at 8.8% at quarter-end and has caused the Rand to lose 6.1% against the USD (down 12.1% YTD). Besides global pressures, SA saw weak corporate earnings, with downside surprises from the likes of Shoprite and Tiger Brands. These earnings surprises indicate a weak local consumer, driven by weak job growth and rising fuel prices. It's too early to say if the Governments Jobs imitative will bear fruit but like many of Ramaphosa's initiatives they are all in the right direction.

Domestic Equity
Given the low growth environment locally, the fund has moved slightly under-weight Domestic Cyclicals over the quarter. Our largest sectoral positions include over-weights in domestic Banks and Global Cyclicals, and under-weights in Telcos and Rate Sensitives.

Positions in Banks (+6.5% QTD) and Defensives (+0.1%) contributed to returns. The fund still has no exposure to gold or platinum. This is offset by the over-weight in Global Cyclicals (Anglo American & BHP Billiton have lower weights than Sasol & Mondi). An under-weight position in Rate Sensitives detracted from performance.

Specific stock performers were Capitec (+18% QTD), Santam (+16.6% QTD) and Anglo American (+6.7% QTD). Our biggest underweight in the fund is MTN. This was the second largest contributor to the fund's performance after Capitec. Our underweight in MTN was driven by its high valuation (17 forward PE at the start of the quarter) combined with a stagnant growth outlook. Further changes over the quarter included buying Investec, continuing to increase exposure to Sasol, and selling out of Shoprite, Glencore and Barloworld.

Global Equity
Direct global exposure makes up 28% of the total portfolio, but effective exposure to offshore assets is closer to 30%. This portion contributed to performance, returning 5.8% in ZAR (2.6% in USD vs. the MSCI World Index's 4.9%) – predominantly due to general weakness across Emerging Markets.

Sector exposure to Health Care (+13.5% in USD) and Industrials (+9.4% in USD) added to performance, as did underweights in Materials & Real Estate.

Tel: +27 (21) 409 7100
Fax: +27 (21) 425 6560
Email: info@bluealphafunds.com
11th Floor Convention Tower cnr. Heerengracht Street & Walter Sisulu Avenue Cape Town 8001
PO Box 7601, Roggebaai 8012
www.bluealphafunds.com
BlueAlpha Investment Management (Pty) Ltd Reg. No. 2003/016855/07
Directors: Uys Meyer, Richard Pitt