BlueAlpha BCI Global Equity Fund – Quarter 3 2018

Performance Period	BlueAlpha Return	Benchmark*
1 Year	21.4%	14.7%
3 Years (annualised)	16.5%	12.0%
4 Years (annualised)	17.6%	13.7%
Since Inception (annualised)	18.3%	15.1%

*Benchmark: 80% MSCI World Index, 20% USD Libor Rolling 1yr
Performance is reported for the A Class net of fees in ZAR

Asset & Sector Allocation	
Cash	11%
Total Net Equity	89%
Consumer Goods	7%
Consumer Services	25%
Financials	10%
Industrials	11%
Health Care	10%
Technology	26%

Top 5 Global Holdings
Apple
MasterCard
Facebook
Tencent
Broadcom

Equity Holdings by Geography	
USA	80.3%
Europe	14.4%
Asia	5.2%

Portfolio Manager: Richard Pitt / Walter Jacobs
Commentary for the Quarter ended 30 September 2018

Performance

The fund returned 2.7% in USD (5.7 in ZAR) vs. the MSCI World Index's 5.0% (8.1% in ZAR). For the 12 months ended September 2018, the fund return has exceeded the market return by more than 5 percentage points, returning 16.0% in USD (21.4% in ZAR) vs. the MSCI World's 11.2% (16.4% in ZAR). September marked the 4th year anniversary since launch and we are happy to report the fund ranks first against the Asisa Global Equity General peer group.

Global Macro

Global equities made strong gains in the 3rd quarter. The US rallied strongly, gaining 7.2% following continued strong economic and earnings data, which outweighed concerns around an escalating US-China trade war. Japan managed a late-quarter rally following political and policy certainty to end up 2.5%. The Eurozone was essentially flat, with strength in energy and industrials being offset by weakness in banks - following concerns over their exposure to emerging markets generally, and Turkey specifically. All other regions were negative by between 2% and 3%. It was a volatile quarter for Emerging Markets (EM), driven by a sharp sell-off in the Turkish Lira and stock market, as concerns about high inflation, a lack of central bank independence and a large current account deficit were aggravated further by rising geopolitical tensions with the US. General risk appetite also weighed on EM's following the US-China trade dispute and USD strength.

As expected, the Federal Reserve implemented its 3rd rate hike for the year, with a further 25 basis point increase. The Fed has finally dropped its long-standing phrase of "accommodative" monetary policy, and given the optimistic economic environment, has reaffirmed the outlook for gradual rate hikes through 2019. Not surprisingly, yields on government bonds rose, with US 10-year yields breaking through 3%. A key feature of the quarter was the escalation of the US-China trade war. This began in July with the US targeting US$34bn of Chinese products with a 25% tariff. A further US$16bn was added in August and another US$200bn of goods at a 10% tariff rate was applied in September. While the escalation of the trade conflict is concerning, industrial activity measures have yet to be impacted in any meaningful way.

Portfolio

At a sector level, Healthcare (+13.5%), Industrials (+9.4%) and Info Tech (+8.4%) led returns. Both Healthcare and Info Tech were boosted by a strong slate of earnings results. Real Estate, Energy and Materials were the laggards, ending the quarter slightly negative. Weakness in both energy and materials is likely due to the anticipated impact that a trade conflict may have longer term. While the fund's sector exposure should have been broadly aided returns, idiosyncratic stocks movements played a far stronger role in the portfolio return this quarter.

Top contributors to performance were Apple (+22%), Blackstone (+22%) and TJX (+18%). These are all long-standing investments - they are classic quality compounders with room for growth and continue to generate high returns on invested capital. The largest detractors from performance were Tencent (-14%), Facebook (-16%) and Aptiv (-8%). The sentiment on Tencent remains negative-to-cautious at best, partly as a "China-proxy", and partly due to increased regulatory reach over the online gaming industry. Nonetheless, the company enjoys high returns, remains dominant in both social media and gaming, and has de-rated significantly through the course of 2018. After a very strong 2nd quarter, Facebook declined substantially following quarterly results. The apparent crime was that management expect slowing revenue growth (from very high levels) and operating margins to move toward the mid 30% range. As a result, the company is now priced on the basis of being only slightly better than average – an assertion which makes little sense given the multitude of monetisation avenues that are still open to them.

A new addition to the portfolio is Ulta Beauty – a US-based operator of a chain of beauty stores which offer cosmetics, fragrances, skin- and hair-care products and salons. Beauty is a robust market and Ulta is focusing on millennials for growth, who are known to spend significantly above average on beauty products. With less than 4% of a growing market share, the company has room for growth and its high returns are illustrated by the 2-year payback on new store rollout. As always, we remain focused on high quality businesses with opportunities to grow and reinvest at high rates of return.

BlueAlpha Investment Management (Pty) Ltd is an authorised Financial Service Provider FSP number 118.
We believe the information displayed in this presentation is accurate and reliable, but no warranty of accuracy or reliability is given and no responsibility arising in any way from errors and omissions (including by way of negligence) is accepted by BlueAlpha Investment Management (Pty) Ltd. This information is not intended to provide advice to, or take into account individual investors objectives, or circumstances. This material should not be construed to represent a solicitation to invest in the Fund(s) and is disclosed for information purposes only.

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