

BlueAlpha BCI Balanced Fund – Quarter 4 2018

Asset allocation		Top 5 Domestic Holdings	Top 5 Global Holdings
Domestic Equity	47%	Naspers FirstRand Capitec Old Mutual Pick n Pay	AbbVie AutoZone Broadcom Home Depot MasterCard
Global Equity	28%		
Property	9%		
Bonds	10%		
Cash	6%		

Portfolio Manager: Richard Pitt / Walter Jacobs
Commentary for the Quarter ended 31 December 2018

Macro

The US has been the strongest market over the year, out-performing the MSCI World Index by +3.6% in USD. However, potential challenges to growth have materialised, even in the US. Earnings growth expectations were buoyant to midyear, increasing 10%, but have since collapsed across all regions, with no further increases in expectations from Jun to year-end. China vehicle sales have fallen -13.9% over the year, suggesting consumer weakness. We are increasingly concerned with developments in China. Sentiment was further affected by headlines around both the continuing trade tensions between the US and China and the partial US government shutdown. Despite these concerns, we remain positive on the US going into 2019.

South African markets under-performed the World Index, largely due to currency weakness. The Rand was flat for the quarter, but was still down -14.5% against the USD over the year. Besides weak growth and stagnant earnings expectations, the largest concern has been Eskom, due to the impact of their debt on the fiscus' contingent liabilities (R400 billion in debt per their latest results presentation in September 2018), among other issues. Concerningly, solutions to Eskom's problems aren't readily apparent.

Asset Allocation

The best performing asset classes over the quarter were Cash & Fixed Income, which both contributed to returns. Relative strength from Property was due to the fund having no exposure to the Resilient stable.

Domestic Equity

Large cap Rand Hedges have performed poorly over both the quarter and the year – with names like British American Tobacco and Richemont both down more than 15% QTD. The portfolio is slightly under-weight Rand Hedges (-13.0% QTD and -23.9% YTD). The portfolio has a small over-weight in Banks (+3.4% QTD), which contributed to returns. We are under-weight in all other sectors. Global Cyclical exposure detracted from returns.

Specific stock performers were Capitec (+9.9% QTD), Mr Price (+9.2% QTD) and Clicks (+9.4% QTD). Having no exposure to British American Tobacco also contributed significantly to performance. Changes over the quarter include selling Vodacom.

Global Equity

Direct global exposure makes up 28% of the total portfolio. This portion detracted from performance, returning -11.5% in ZAR (-13.0% in USD vs. the MSCI World Index's -13.4%) – predominantly due to general weakness globally.

Having no exposure to Energy and under-weights in both Financials, Materials and Consumer Staples added to performance. Over-weights in Consumer Discretionary and Info Tech detracted from performance.

Despite broad weakness globally, some holdings still posted positive returns – in particular, AutoZone (+9.9% in USD) and Broadcom (+5.9% in USD).