BlueAlpha BCI Equity Fund – Quarter 4 2018

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	**-5.7%**	-8.9%	-7.8%
3 Years (annualised)	**2.8%**	2.2%	4.1%
4 Years (annualised)	**4.3%**	2.1%	4.0%
Since Inception (annualised)	**7.6%**	1.9%	4.1%

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

Top 5 Domestic Holdings	Top 5 Global Holdings
Capitec	Tencent
FirstRand	AbbVie Inc.
Naspers	Broadcom Inc.
Anglo American	Mastercard
Standard Bank	Apple Inc.

Asset & Sector Allocation	
Cash	6%
Total Net Equity	94%
Basic Materials	16%
Consumer Goods	4%
Consumer Services	14%
Financials	25%
Offshore	25%
Property	5%
Other	5%

Portfolio Manager: Gary Quinn / Kyle Rix
Commentary for the Quarter ended 31 December 2018

Performance

For the quarter, the fund returned -6.5% vs. the benchmark (-6.0%) – 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 outperformed, returning -5.7% vs. the benchmark's -7.8%.

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.

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). Our largest domestic sectoral positions were over-weights in Banks and Global Cyclicals. We are under-weight in all other sectors. Positions in Banks (+3.4% QTD) and Property also contributed to returns. Relative strength from Property was due to the fund having no exposure to the Resilient stable. Global Cyclical exposure detracted from returns.

Specific stock performers were Capitec (+9.9% QTD), Mr Price (+9.2% QTD) and Anglo American Platinum (+16.4% QTD). Having no exposure to British American Tobacco also contributed significantly to performance. Changes over the quarter include buying Redefine International and Hyprop, and selling Aspen, Atlantic Leaf Properties, and Imperial.

Global Equity

Direct global exposure makes up 25% of the total portfolio, but effective exposure to offshore assets is closer to 30%. This portion detracted from performance, returning -13.4% in ZAR (-14.7% 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 (+8.1% in USD QTD) and Broadcom (+4.2% in USD QTD).

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