BlueAlpha BCI Equity Fund – Quarter 1 2019

BLUE ALPHA
INVESTMENT MANAGEMENT

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	6.5%	1.4%	6.2%
3 Years (annualised)	6.6%	2.8%	4.8%
4 Years (annualised)	4.5%	2.4%	4.3%
Since Inception (annualised)	9.1%	3.0%	5.6%

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
Naspers	Broadcom
Capitec	Ulta Beauty
FirstRand	Apple
Anglo American	Blackstone
Standard Bank	Accenture

Asset & Sector Allocation	
Cash	3%
Total Net Equity	97%
Basic Materials	16%
Consumer Goods	5%
Consumer Services	14%
Financials	24%
Offshore	25%
Property	5%
Other	6%

Portfolio Manager: Gary Quinn / Kyle Rix
Commentary for the Quarter ended 31 March 2019

Performance
For the quarter, the fund returned 8.5% vs. the benchmark (7.9%) – 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 again outperformed, returning 6.5% vs. the benchmark's 6.2%.

Macro
Global markets recovered over the quarter, returning 12.5% in USD. The US was the strongest-performing region, returning 13.7% vs. Europe (11.3%), Asia ex-Japan (11.4%) and Japan (7.3%) – all returns in USD. Markets were largely driven by a U-turn from Central Banks' halting interest rate hikes, and increased Chinese stimulus. It should be noted that earnings expectations have yet to recover. Global earnings growth is expected to come in at 10.4% for 2019.

South African markets, despite having produced positive absolute returns, still trailed the World Index, returning 8.0% vs. the MSCI World Index's 12.8% in ZAR. The Rand has appreciated against the US Dollar over the quarter, gaining 2%. However, relative to other Emerging Market currencies, Rand strength has been subdued. Bond yields have remained elevated, ending at 9.1% at end-March (vs. 9.3% at the end of 2018). The SARB also appears to have halted rate hikes, given weak consumer data and muted inflation. For the first time since the first quarter of 2018, the market is pricing in a 60% of a 25bps cut in interest rates in the next 12 months.

Domestic Equity
Our largest domestic sectoral positions included an overweight in Banks and Global Cyclicals, which contributed to returns (+5.9% and +16.7% QTD respectively). Underweight positions include Rate Sensitives, Defensives and Telcos. The largest detractors from performance were Domestic Cyclicals and Property – both of which are small underweight positions.

Specific stocks performers were Capitec (+20.8% QTD), Anglo American (+22.1% QTD) and Anglo American Platinum (+38.2% QTD), while Mr. Price and Naspers detracted from returns. Changes over the quarter included buying Astral Foods and Spar.

In anticipation of a South African rebound, we see 2 keys hurdles – the May general election and a plausible solution to Eskom. Should both issues see some resolution, we would aim to increase exposure to SA domestic names.

Global Equity
Direct global exposure makes up 25% of the total portfolio, but effective exposure to offshore assets is closer to 30%. This portion was the largest contributor to returns over the quarter, returning 16.7% in ZAR (16.4% in USD vs. the MSCI World Index's 12.5%).

On a sector basis, top contributors to performance were Consumer Discretionary (+18.7% in USD QTD) and Info Tech (+27.8% in USD QTD). Having no exposure to Consumer Staples and Energy detracted from returns. Specific stock contributors included Ulta Beauty (+42.4% in USD QTD) and SS&C Technologies (+41.4% in USD QTD).

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