BlueAlpha BCI Global Equity Fund – Quarter 2 2019

BLUE ALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	7.0%	5.0%	8.5%
3 Years (annualised)	14.2%	8.2%	8.4%
4 Years (annualised)	13.5%	8.9%	10.9%
Since Inception (annualised)	15.5%	9.9%	12.9%

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

Top 5 Global Holdings
Blackstone UnitedHealth Accenture Dominos Pizza Facebook

Equity Holdings by Geography	
USA	85%
Europe	10%
Asia	5%

Asset & Sector Allocation	
Cash	16%
Total Net Equity	84%
Consumer Goods	4%
Consumer Services	31%
Financials	9%
Health Care	8%
Industrials	6%
Technology	25%
Other	1%

Portfolio Manager: Richard Pitt / Walter Jacobs
Commentary for the Quarter ended 30 June 2019

Performance
After a very strong start to the year, the fund had a reasonable 2nd quarter, gaining 2.7% in USD versus a 4.0% gain for the MSCI World Index (1.7% in ZAR). A strengthening in the Rand against the USD reduced the ZAR return to 0.5%. Hedging activities based on low volatility and managing market risk, detracted from returns in the quarter. Year to date, the fund is up 19.5% in USD (17.2% in ZAR), which is a strong performance against the MSCI World Index and alpha generation of 2.5%.

Global Macro
Global markets continued to rally in the second quarter, though at a far more moderate pace than during the 1st quarter and included a reasonable risk-off draw-down during May. Europe and the US were the strongest-performing regions, returning 4.6% and 4.3% respectively. Asia ex-Japan was slightly negative for the quarter, while Japan fell by 1.7%. The tug-of-war between trade tensions escalating and de-escalating based on rumor and inuendo, continued during the quarter. Strong but softening macro-economic indicators and weak earnings revisions point to increased equity volatility going forward. Following the decline in May, it appears that central bankers have very clearly and unequivocally come to the rescue. Given continued low inflation, weaker economic data and uncertainty around trade deal resolution, both the Fed and the ECB have committed themselves to further monetary stimulus. Interestingly, this drove a rally of both risk and safe-haven assets in June. This is atypical and premised on the notion that quantitative easing will support bonds, while risk assets will benefit from lower rates. Regarding earnings forecasts, there appears to be some disconnect for now between the direction of equities and the direction of earnings revisions. The jury is out on whether central bank stimulus can assist in keeping the economic expansion going.

Portfolio
Sector returns were fairly tightly-bunched, with Healthcare and Industrials lagging a bit. The biggest outlier was Energy (-2.8% for the quarter) which, in terms of sectoral exposure, benefitted the fund. Specific stock contributors in the quarter included Blackstone (+28.2%), Facebook (+15.8%) and Mastercard (+12.5%). After being one of the top performers for the fund in Q1, SS&C was the worst performer in Q2, declining by 9.4%. After beating earnings expectations, but then guiding lower for the quarter ahead, the stock was predictably sold off, as investors unsurprisingly and quite typically appear to overweight the most recent piece of management guidance at the expense of thoughtful analysis of the companies' earnings power and long-term prospects. The other large cost to the fund over the quarter was the loss of premium for protection bought as a hedge on the S&P100 Index. This is not an explicit call on the level of the index, but rather a pragmatic response to being able to secure some downside protection after a very strong first quarter and the relatively low cost (volatility) of protection at the time. During the second half of the year, investors will have to grapple with the issue that the sharp market recovery has not as yet been matched with strong forecasts of gains in corporate profits. As such we think it is more crucial than ever to invest in companies that do still have growth potential and can generate high rates of return on invested capital. Investors will likely continue to focus on macro factors such as trade agreement risk and Fed rates. Our focus remains investing in companies that have good prospects of generating real economic profits over the foreseeable future.

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