BlueAlpha BCI Balanced Fund – Quarter 3 2019

BLUE ALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Benchmark*	Outperformance
6 Months	**1.6%**	0.9%	**0.7%**
1 Year	**1.5%**	2.1%	**-0.6%**
Since Inception (cum.)	**1.0%**	1.2%	**-0.2%**

*Benchmark: Average of the SA Multi Asset High Equity ASISA category, calculated over a 1-year rolling period

Asset allocation	
Domestic Equity	44%
Global Equity	28%
Property	9%
Bonds	10%
Cash	9%

Top 5 Domestic Holdings	Top 5 Global Holdings
Pick n Pay	Apple
Clicks	Home Depot
FirstRand	Blackstone
Foschini	TJX Companies
Capitec	Autozone

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

Performance

As the fund has now reached it's 1-year track record, we are pleased to report performance for the first time. For the quarter, the fund returned -1.4% vs. the Benchmark -0.1%. For the year, the fund returned 1.5% vs. the Benchmark 2.1%.

Macro

After a strong first half, the 3rd quarter was a lot more sobering in terms of risk appetite. While the World Index reached an all-time high in July, the market sold off sharply in early August as fears re-emerged around trade risk. While the market rallied through September there was notable sector rotation away from growth into the long underperforming "value" sectors of the market. The quarter was characterised by continued concern around the way forward for Brexit, the ebb and flow of trade war risk, and a continued slowdown in global economic data. Counter balancing this was a restart of monetary easing in the US and continued easing in Europe. In US dollar terms Japan and the US led regional performance while emerging markets and Asia ex Japan lagged, both falling by about 6% over trade war concerns. The ECB continues with its "whatever it takes" approach to achieve growth and inflation targets by cutting rates further into negative territory and restarting quantitative easing (asset purchases). The quarter marked a decisive change in policy from the US Fed with 2 rate cuts (the first in 10 years) – in July and September. The US is clearly trying to prolong the extent of the economic expansion given the slowdown in growth and jobs. The impact of this policy change was evidenced in the bond market with historic declines in 10YR and 30 YR yields to an all-time low and an inversion of the yield curve. The economic slow down is now becoming more obvious at an earnings level for companies. For the SP500 Q3 earnings are expected to decline by over 3% which will mark the 3rd straight quarter of year on year declines. Projected earnings growth has been steadily pared back from forecasts at the start of 2019. Notwithstanding the support of central bankers, given the economic backdrop, growth forecast could be at further risk. An extended period of sustained low rates and lower growth seems the likely base case scenario for now.

In South Africa, growing government debt has added to the budget deficit, weighing on sentiment and market performance generally. This will likely result in SA losing its investment grade debt rating – which, in response, is expected to require fiscal tightening and possible tax hikes at both a corporate and individual level. The Rand depreciated over the quarter, losing 7.0% against the USD. Bond yields have moved higher, ending at 9.0% at end-September (vs. 8.8% at end-June). The SARB cut rates by 25 bps over the quarter, given weak consumer data and muted inflation. The market is pricing in at least one more 25bps cut in interest rates over the next 12 months.

Asset Allocation

The best performing asset class over the quarter was offshore equity, and the fund's allocation to offshore equity was the largest contributor to returns.

Domestic Equity

Specific domestic stock performers were Anglo American Platinum (+10.5% %) and Bid Corp (+5.9 %). Having no exposure to Shoprite and Discovery also contributed to returns, while having no exposure to Woolworths and gold miners detracted from returns. Changes over the quarter included selling Richemont, Sasol, and Hammerson and buying Anheuser-Inbev and Vodacom

In anticipation of a South African rebound, we see a plausible solution to Eskom as the largest hurdle. Should we see any resolution on this issue, we would aim to further increase exposure to SA domestic names.

Global Equity

The Global component of the portfolio was the largest contributor to performance over the quarter. Specific stock performers were Apple (+13.6% in USD), Home Depot (+12.2% in USD) and Blackstone (+11.1% in USD).

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