BlueAlpha BCI Equity Fund – Quarter 3 2019

BLUE ALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	**-0.5%**	-1.3%	2.2%
3 Years (annualised)	**6.1%**	1.7%	4.5%
5 Years (annualised)	**6.9%**	3.1%	5.7%
Since Inception (annualised)	**7.8%**	2.4%	5.2%

Performance is reported for the 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
FirstRand	Blackstone
Naspers	Apple
Capitec	Accenture
Standard Bank	TJX Companies
Prosus	Facebook

Asset & Sector Allocation	
Cash	5%
Total Net Equity	95%
Basic Materials	10%
Consumer Goods	4%
Consumer Services	14%
Financials	19%
Offshore	21%
Property	5%
Other	10%
Technology	12%

Portfolio Manager: Gary Quinn / Kyle Rix
Commentary for the Quarter ended 30 September 2019

Performance
For the quarter, the fund returned -3.2% vs. the benchmark -1.6% – 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 returned -0.5% vs. the benchmark's 2.2%.

Macro
Global markets had a positive quarter, returning 0.41% in USD. The US continues to do well, particularly large branded corporates. It should be noted that earnings expectations have yet to recover meaningfully. Global earnings growth is expected to come in at 11.69% for 2019. The disconnect between global bond and equity markets continues, with bond yields pricing in recession while equity markets are still broadly up. There has been little development in the trade war over the quarter. We see this as something markets will have to get used to for the next few years.

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.

Domestic Equity
Our largest sectoral positions were overweights in Banks and Domestic Cyclicals. Underweight positions include Rate Sensitives, Global Cyclicals, and Telcos. The largest domestic contributors to returns were Defensives and Rate Sensitives.

Specific domestic stock performers over the quarter were Anglo American Platinum (+10.5%), Bid Corp (+5.9%) and Transaction Capital (+10.9%). Having no exposure to MTN and Shoprite also contributed to returns, while having no exposure to British American Tobacco and Gold miners detracted from returns. Changes over the quarter included selling Lewis, Spar Group, and Sasol, while buying Investec Australia Property Fund.

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. The offshore component benefitted from a weaker Rand while offshore holdings returns were modest in USD. During the quarter, the fund sold down its position in Kering, while buying Starbucks and Oracle.

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