BlueAlpha BCI Global Equity Fund – Quarter 3 2019

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	4.1%	4.9%	9.4%
3 Years (annualised)	15.7%	10.4%	12.3%
5 Years (annualised)	14.8%	10.6%	12.8%
Since Inception (annualised)	15.3%	10.8%	14.0%

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

Asset & Sector Allocation	
Cash	12%
Total Net Equity	88%
Consumer Goods	4%
Consumer Services	31%
Financials	10%
Health Care	9%
Industrials	7%
Technology	26%
Other	1%

Top 5 Global Holdings
Blackstone
Apple
Accenture
TJX Companies
Facebook

Equity Holdings by Geography	
USA	86%
Europe	10%
Asia	4%

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

Performance

The Fund gained almost 3% over the third quarter. The return lagged the World Index in ZAR which was up almost 8%. In US dollar terms the fund fell 4% versus the World Index which managed a small gain of 0,5%. While the last quarter was challenging for the funds' investments, we remain a top quartile performer over most periods. Year to date the fund is up 20,6% in ZAR and 14,4% in US dollars. The last quarter marked the five-year anniversary of the fund. Over that period the fund ranks 1st against all peers, has beaten the World Index and has delivered over 4% excess return per annum versus the category average. Since inception, the fund has delivered an annualised return of 15,3% per annum.

Global 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 characterized 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.

Portfolio

Sector returns were widely dispersed through the quarter. Utilities (+8,3%), Property (+7%) and Consumer Stables (+5,4%) were buoyed by the decline in rates and a demand for "safe havens" as risk appetite moderated. Lagging sectors were Energy (-7,2%), Healthcare (-2,7%) and Materials (-0,7%). The poor performance of Healthcare hindered the fund performance as did having no exposure to Utilities or Property. The top performing stock contributors in the quarter included Apple (+13,6%), Home Depot (+12%) and Blackstone (+11%). The largest detractors from performance were UnitedHealth (-10%) and Ulta Beauty (-27%). United Health has been caught in the political crossfire of Democratic candidates arguing for an extension of Medicare coverage that would be negative for private insurers. This seems an unlikely outcome and has meant that this high return business is now priced below the market without any decline in earnings consensus. Ulta Beauty fell sharply after a soft Q2 report and comments about disruption in the makeup category. While the reduction in short term growth is concerning a far lower base has now been set. The business remains a category leader in its segment for brand awareness, the model generates very high returns on invested capital and insiders have started buying shares. Our investment focus remains on high ROIC companies that have good prospects for reinvesting for growth.

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