BlueAlpha BCI Global Equity Fund
Quarter 2 2020

BLUE ALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	**34.0%**	24.0%	29.2%
3 Years (annualised)	**22.8%**	13.5%	17.3%
5 Years (annualised)	**17.3%**	11.0%	14.3%
Since Inception (annualised)	**18.5%**	11.5%	15.6%

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	13%
Equity	87%
Basic Materials	1%
Consumer Services	19%
Financials	12%
Health Care	15%
Industrials	7%
Technology	32%
Other	1%

Top 5 Global Holdings

AbbVie
Roche Holdings
Broadcom
Amazon
Microsoft

Equity Holdings by Geography	
USA	80%
Europe	10%
Asia	10%

Portfolio Manager: Richard Pitt / Walter Jacobs
Commentary for the Quarter ended 30 June 2020

Performance

While the debate still rages regarding the likely shape of the economic recovery – the equity market has unequivocally delivered a sharp "V" rebound over the first half of 2020. Continuing with the theme of extreme and historic moves, the fastest move into bear market territory in Q1 was met with an equally unprecedented largest ever 50-day rally in Q2. While the broad index for volatility has fallen (signaling an increase in risk appetite from investors), the daily range in mood remains elevated. By way of example, the frequency of S&P500 daily price changes in excess of 4% during H1 is more than 5x the annual average over the last 100 years. While this may sound like an environment offering great opportunities – the extent of these moves is equally an opportunity for investors to wrong foot themselves. Accordingly, we focused our energy on the investment merits of companies we own and made few portfolio changes because of volatility. The fund lagged a buoyant World Index over the quarter given defensive portfolio positioning. Year to date the fund has performed strongly in both in absolute (+26% in ZAR) and relative terms (+9% in ZAR ahead of the World Index). In US$ the fund is positive year to date – a credible performance in unprecedented times and well ahead of the -5.5% US$ decline in the market. The fund is 5% in ZAR ahead of benchmark for the year. The investment approach has delivered top quintile performance across most periods and is ranked 1st since inception and over the last 5 years versus peers.

Global Macro

During the second quarter the flattening of the COVID curve, reopening of economies and directional improvement of economic data have all been positive for equity markets. Given the speed and magnitude of both fiscal and monetary support, the liquidation event that centered around the COVID lockdowns has in the short term been quite clearly addressed. Such was the extent of financial support in developed markets that in the US it was estimated that 60% of workers taking state and federal benefits were financially better off versus full time employment. Clearly this is not a sustainable position and the costs and consequences of the substantial stimulus and support efforts will need to be faced at some point in the future. With the World Index up about 40% since the March lows, it is self-evident that returns are likely to be more muted over the medium term. Our biggest concern remains the second order effects of the lockdown and to what extent this precipitates a solvency crisis. There has been a marked increase in bankruptcy reorganization filings, and we would expect this to increase. Our focus on high return companies that generate cash will be important going forward. Other reasons for caution include the risk of second wave infections; a strained US – China relationship with a move away from the globalization trend which has expanded margins and kept inflation in check; and finally valuation metrics which are not cheap in the face of an uncertain earnings outlook. Countering this is the relative attractiveness of equities versus bonds; the magnitude and speed of the monetary and fiscal response supporting economies and risk assets; and that COVID has accelerated existing trends supporting the growth of technology related companies. Most importantly, COVID is an exogenous factor (cycles typically end with the endogenous overheating of economies) which has precipitated enormous stimulus to support the recovery and possibly an extension of the economic cycle.

Portfolio

Sectoral exposure toward Technology, with little or no exposure to Financials and Utilities benefited the portfolio. The underlying portfolio investments mostly did very well during the quarter. After managing the drawdown in Q1 extremely well, our main error was to keep a relatively cautious positioning in terms of exposure and hedging. Unsurprisingly the top contributors to return are centered around the broad arena of Technology for which COVID is mostly considered a supportive tailwind. Top performers include PayPal (+77%) Amazon (+37%) Apple (+39%) and ServiceNow (+37%). Hedging detracted from returns. Given the liquidity bounce which has driven up valuations we are paying close attention to the relative earnings trend of portfolio companies. With a very uncertain landscape ahead, investing in robust high return companies remains a sensible approach.

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