# BlueAlpha BCI Balanced Fund

## Quarter 3 2020

BLUEALPHA INVESTMENT MANAGEMENT

| Performance Period | Fund Return | Benchmark* | Outperformance |
|---|---|---|---|
| 6 Months | **12.7%** | 15.0% | **-2.3%** |
| 1 Year | **3.0%** | 1.7% | **1.3%** |
| Since Inception (annualised) | **2.0%** | 1.5% | **0.5%** |

Performance is reported for the C Class, net of fees
*Benchmark: Average of the SA Multi Asset High Equity ASISA category, calculated over a 1-year rolling period
Inception date: September 2018

| Asset allocation | |
|---|---|
| Domestic Equity | 36% |
| Global Equity | 35% |
| Property | 4% |
| Bonds | 14% |
| Commodities | 6% |
| Cash | 5% |

| Top 5 Domestic Holdings |
|---|
| Prosus |
| NewGold |
| Naspers |
| Foschini Group |
| AngloGold Ashanti |

| Top 5 Global Holdings |
|---|
| ServiceNow |
| Amazon |
| Broadcom |
| Dominos Pizza |
| SPDG Gold Shares |

**Portfolio Manager: Gary Quinn / Walter Jacobs**
**Commentary for the Quarter ended September 2020**

**Performance**
For the quarter, the fund outperformed, returning 2.2% vs. the benchmark's 1.3%. Over 12 months, the fund has also outperformed, returning 3.0% vs. the benchmark's 1.7%.

**Macro**
Global markets had a positive quarter, returning 7.9% in USD, lifting YTD performance out of negative territory (+1.7% in USD). Global earnings expectations, which at the end of April were down 30% from their peak, have recovered ground – leaving them down 15%. Liquidity is at historical levels, given global responses by central banks and governments alike, in response to the continuing effects of COVID-19. In the US, attention has been split between the pandemic and the upcoming Presidential elections in November.

In South Africa, the initial rebound over the second quarter has gone sideways, with the market down -0.3% in ZAR mainly because of Rand strength. The Rand gained 4.2% against the USD. South African Bond yields are trading at 9.4% at end-September (vs. 9.2% at end-June). However the yield curve is very steep because of historically low short rates. The SARB has reduced interest rates by another 25bps given weak consumer sentiment and benign inflation prints, with expectations that rates will remain at these levels for the next 12 months. Government's spending in response to the pandemic, as well as renewed commitment to SAA in the form of a restructure has put further pressure on the fiscus. This trend has exacerbated concerns surrounding government debt in general. We aren't sure that the government has a credible plan to address this. Unemployment has also been exacerbated by the lockdown, seeing 2.2m jobs lost over the period. Recovery efforts will depend on finding growth.

On the whole, we should see a global recovery start to take shape in the first quarter of 2021. However, we expect South Africa will only show signs of recovery some nine months later.

**Domestic Equity**
Underweight positions included Rate Sensitives and Banks – both of which contributed to returns. Specific stock performers were FirstRand (+8.3%) and Capitec (+20.8%) – the portfolio had no exposure to Absa, Standard Bank and Nedbank.

Changes over the quarter included buying Anglo American Platinum and Foschini. Foschini is our only real exposure to Domestic Cyclicals, which was a large contributor to returns (+28.5% QTD).

**Global Equity**
The offshore component was the largest contributor to returns over the quarter (+11.7% in USD). Specific stock performers were ServiceNow (+19.7% in USD), Apple (+27.2% in USD) and Amazon(+14.1% in USD).

The portfolio is still defensively positioned. We believe that South Africa's recovery will be slower than global peers and therefore see this defensiveness as sensible. We will look to position the portfolio for a global recovery in Q1 2021.

Tel: +27 (21) 409 7100
Fax: +27 (21) 425 6560
Email: info@bluealphafunds.com
11th Floor Convention Tower cnr. Heerengracht Street & Walter Sisulu Avenue Cape Town 8001
PO Box 7601, Roggebaai 8012
www.bluealphafunds.com
BlueAlpha Investment Management (Pty) Ltd Reg. No. 2003/016855/07
Directors: Richard Pitt, Sandile Sokhela, Kirsty Minor