BlueAlpha BCI Global Equity Fund
Quarter 3 2020

BLUEALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	**36.5%**	21.3%	23.2%
3 Years (annualised)	**20.0%**	12.3%	15.7%
5 Years (annualised)	**17.6%**	11.2%	13.6%
Since Inception (annualised)	**18.6%**	11.5%	15.5%

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
Inception date: September 2014

Asset & Sector Allocation	
Cash	11%
Equity	89%
Basic Materials	1%
Consumer Services	20%
Financials	15%
Health Care	13%
Industrials	7%
Technology	33%

Top 5 Global Holdings
Broadcom
ServiceNow
Home Depot
Facebook
Amazon

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

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

Performance

The positive momentum of the 2nd quarter continued into the 3rd quarter, with the World Index up 7.9%. Risk appetite receded towards the end of the quarter, with negative equity returns across all regions except Japan in September. Regional returns, for both year-to-date and the last quarter are skewed towards Asia and the US (both up over 9% for the quarter and 5% YTD) while Europe lags and the UK remains down 20% YTD. Asia's performance has in large part been driven by China's success in controlling the spread of COVID-19. This is best illustrated by subway usage which is now running only 10% below COVID levels in China, whereas as London remains more than 60% below normal. For the year, developed markets are about 3% ahead of emerging markets. From a style perspective growth is strongly ahead - up 19% while value is down 14% year to date. The Fund was up 9.2% in USD, beating the World index by more than 1.0% over the quarter. ZAR appreciation reduced the return to 4.9% in local currency terms. Year-to-date, the fund is more than 8.0% ahead versus the World Index. September marked the fund's 6-year anniversary – it has been a rewarding time – with the fund ranked first in its category since inception.

Macro

The macro environment for equities seems hinged on the upcoming US presidential elections; the development of vaccine progress; an extremely supportive monetary environment, in addition to direct stimulus; and the nagging question that equities remain expensive against a backdrop of a very uncertain and vulnerable economic environment. We do not invest in companies based on taking a view on presidential candidates and the likely companies that may benefit or lose from a certain outcome. Nonetheless, it is clear that elections have historically stoked both uncertainty and market volatility. Given the charged political environment we would expect increased volatility going into the elections and all manner of strange outcomes possible around the election itself. On vaccines, there is bound to be some positive outcome at some point, which may be an impetus for buying struggling "value" companies as they enjoy some economic reprieve. We expect this would be only a temporary respite and are more interested in companies with high returns on invested capital and long-term growth opportunities. A key event in the quarter was the Federal Reserve very clearly messaging a highly accommodative monetary regime allowing for "temporary overshoots in inflation". This means that rates will likely stay low for the foreseeable future, with policymakers seeing rates at the zero to lower bound through at least 2023. While equities may appear more expensive than usual on a PE basis, on an equity risk premium basis, stocks are still on the cheap side of historical valuation bands.

Portfolio

The portfolio generally performed well during the quarter. The top contributors to fund performance where Alibaba (+36.3%), Twitter (+49.4%) and Broadcom (+16.5%). Our largest detractors were Intel (-12.9%) and AbbVie (-9.7%) – two out-of-favour high quality businesses where we believe the markets are pricing in an unrealistically pessimistic outlook. Hedging detracted from returns. With volatility low and uncertainty likely to rise over the US presidential election, we believe it remains a good time to hedge short term downside risk. While the market awaits the outcome of a further US stimulus package, we continue to be attracted to companies that are less obvious beneficiaries of such programs. Our key focus remains looking for companies that generate high cash returns on their invested capital and appear to have a long runway of growth opportunities to reinvest in. In a low interest rate environment, we would not be surprised to see the relative valuations of such "quality compounders" extend even further.

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