BlueAlpha BCI Global Equity Fund
Quarter 2 2021

BLUEALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	**10.0%**	14.7%	13.5%
3 Years (annualised)	**16.4%**	14.3%	16.8%
5 Years (annualised)	**17.0%**	12.3%	13.4%
Since Inception (annualised)	**17.2%**	11.8%	15.3%

Performance is reported for the A Class net of fees in ZAR
Sector Average: Global Equity General
Benchmark: 20% USD Libor, 80% MSCI World Index ZAR until 30/09/2020 and MSCI World TR index (ZAR) from 01/10/2020
Inception date: September 2014

Asset & Sector Allocation	
Cash	2%
Equity	98%
Consumer Discretionary	24%
Energy	2%
Financials	13%
Health Care	14%
Industrials	14%
Technology	31%

Top 5 Global Holdings

Blackstone
Blackrock
Facebook
PayPal
AutoZone

Equity Holdings by Geography	
USA	81%
Europe	12%
Asia	7%

Portfolio Manager: Richard Pitt / Walter Jacobs
Commentary for the Quarter ended June 2021

Performance

The fund delivered another good quarter gaining 7.8% in USD terms – marginally beating the World Index and almost 1% ahead of the All Country World Index return of 6.9% - and this notwithstanding some performance drag from cash holdings and some risk hedging activities. Rand appreciation over the quarter reduced the return to 4.6% for the period in local currency terms. After depreciating 8% in the last month from an intra quarter high of 13,40 against the US$, it does appear that signs of future Rand weakness are possibly emerging. Year to date the fund has returned 14.2% in US$ and 11.5% in ZAR – outperforming the World Index and All Country World Index by 1.2% and 2.7% respectively. Rolling 1-year returns have moderated somewhat after adjusting for the previous quarters low base but remain very high at 33.6% in US$ terms. Over 5 years the fund has compounded at an annualized rate of 17.6% in US$ and has generated almost 3% of annual alpha (excess return) over the World Index. Since inception in September 2014, the fund has delivered 2% of annual excess return above that of the MSCI World Index. We believe this is testimony to the merits of our investment approach as well as our ability to deliver our philosophy in a methodical and disciplined manner through market cycles.

Global Macro

Global equities had another strong quarter and have had an excellent 12 months notwithstanding concerns around valuations (at an aggregate level), elevated levels of risk taking and fears about both inflation and the timing and path of returning interest rates to “normal”. There is no doubt that unprecedented levels of peacetime monetary expansion have contributed to strong returns from equities. At the same time, the accelerating rollout of vaccines is also creating a strong expectation for a return to normal economic activity with the” booster shot” of excess monetary supply. This had been the key driver of the apparent “value over growth” trade that was triggered in November last year as viable vaccines first became apparent. To the surprise of many, value underperformed growth over the last quarter. We believe this is because the likely return to normal might be far slower than the consensus view, with variants of the virus suggesting that we are possibly facing a longer goodbye process to Covid. This is challenging the whole notion of the popular reflation trade and suggests that notwithstanding the strong rebound in economic data, companies may in fact be facing a mid-cycle growth scare. This growth scare is highlighted by the decline in the 10 year US yield from 1,7% at the beginning of the quarter to 1,3% in early July. While the Fed indicated that rate increases may come in 2023 – both they and the ECB have clearly signalled that they will not respond to transitory spikes in inflation.

Portfolio

Outside of our overweight exposure to Technology which benefited returns, sector weightings broadly had little net impact on overall portfolio performance. The top contributors to performance over the quarter were Blackstone, PayPal and Facebook. Blackstone is slowly transforming itself from a long dated, finite funds business to more of a permanent capital model. This expansion of multiple permanent capital platforms has the potential to create significant shareholder value in the future. Tencent, Intel and the purchase of downside option protection on indices detracted from performance. Tencent is now 30% below its February high and the same price as a year ago. A bullish sum of the parts valuation points to a possible HK$1,000 share price target for 2022 – a doubling from the current price. Like many high-quality growth companies, Tencent has substantially derated against the world market as a whole. Beijing’s campaign against Chinese tech giants has clearly dented sentiment. While it is impossible to determine when this may change, we believe the long-term opportunities for dominant Chinese technology firms remains very attractive. Importantly the currently depressed prices are a function of external factors (which we believe will normalize in time) and are not internal company specific issues, which would make us far more circumspect.

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