# BlueAlpha BCI Balanced Fund
## Quarter 3 2021

BLUEALPHA
INVESTMENT MANAGEMENT

| Performance Period | Fund Return | Benchmark* | Outperformance |
|---|---|---|---|
| 1 Year | **18.8%** | 18.7% | **0.1%** |
| 3 Years (annualised) | **7.5%** | 7.2% | **0.3%** |
| Since Inception (annualised) | **7.3%** | 6.9% | **0.4%** |

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 | 41% |
| Global Equity | 32% |
| Property | 8% |
| Bonds | 9% |
| Commodities | 2% |
| Cash | 8% |

| Top 5 Domestic Holdings | Top 5 Global Holdings |
|---|---|
| Aspen | AutoZone |
| Foschini | Apple |
| MTN | Blackstone |
| FirstRand | Facebook |
| Capitec | Broadcom |

**Portfolio Manager: Walter Jacobs, Richard Pitt & Duzi Ndlovu**
**Commentary for the Quarter ended September 2021**

**Performance**
For the quarter, the fund outperformed, returning 6.9% vs. the benchmark's 2.5%. Over 12 months, the fund returned 18.8% vs. the benchmark's 18.7%.

**Macro**
Global markets were flat for the quarter and the US Equity market wasn't any more exciting, up 0.6% in USD for the quarter. On a good note, global earnings expectations have continued to rise and are now 16% higher than end- December 2019.

As for China, there are difficulties everywhere. Chinese FAI's have stopped growing, their labour force has peaked, and the population growth could peak very soon. A slowdown in FAI Growth is a huge problem for China, to use a comparison, China's dependence on real estate exceeds that of Spain before the financial crisis. Possibly the most concerning issue is their corporate accounting, which is highly unreliable and there are frightful inaccuracies. One of the big Chinese concerns this quarter is that of Evergrande, the big Chinese property developer potentially going bankrupt. This is affecting broad markets and commodities. One should be aware that the Chinese government will first save the Chinese households, then help the political people associated with Evergrande, and will deal with the feelings of the offshore bond holders last.

Taking a look at South Africa, equities were up 3.2% for the quarter. South African Bond yields are trading at 9.6% at end-September (vs. 9.2% at end-June) and the market is pricing in several hikes over the next 12 months.
The vaccine roll-out has fallen well short of targets (owing to vaccine hesitancy rather than lack of available doses), but there appears to be sufficient immunity to expect relatively normal activity for the balance of this year. Despite the slow vaccine rollout, the UK government has given the clearest indication yet that it will remove SA from its travel list of "red" countries, which will provide massive relief to the tourism industry going into 2022.

The SA trade account is still at a healthy surplus, R42bn ($2.9bn) at the end of August, this was fueled by a rise in commodity prices as well as export volumes. Import volumes continue to recover, which should offset the surplus from exports.

**Domestic Equity**
Two of our overweight's performed well; Aspen (+69.0%) and Clicks (+13.3%). Our underweight to Naspers/Prosus was also a big contributor to returns. The overweight in Foschini detracted from returns this quarter.

We have increased the duration of our fixed income allocation by buying switching out of the R186 into the longer dated R2032. After the recent sell off in the yield curve, risk return metrics when considered on a break-even point analysis favour the 10-year bonds ahead of the R186; The inflation expectations reflected in the 10-year bond lead us to be confident that the yield is peaking, and we will be able to earn an attractive running yield from the R2032 and it can provide good capital growth should yields retreat from these levels.

Changes over the quarter included selling out of Coronation and Vodacom and adding Nedbank and MTN as we continue to move away from overly defensives names. We sold Anglo American Platinum and bought South32, having no exposure to Platinum worked in our favour.

**Global Equity**
The global component was the biggest contributor to returns +9.8% in ZAR (+4.2% in USD). Specific stock performers were Blackstone (+20.5% in USD) and AutoZone (+13.8% in USD).

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