BlueAlpha BCI Global Equity Fund
Quarter 3 2021

BLUEALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	**8.8%**	13.5%	16.7%
3 Years (annualised)	**15.7%**	13.3%	16.3%
5 Years (annualised)	**18.2%**	12.9%	15.3%
Since Inception (annualised)	**17.2%**	11.9%	15.6%

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	7%
Equity	93%
Consumer Discretionary	22%
Energy	2%
Financials	11%
Health Care	11%
Industrials	13%
Technology	34%

Top 5 Global Holdings
AutoZone
Blackstone
Amazon
PayPal
AbbVie

Equity Holdings by Geography	
USA	85%
Europe	9%
Asia	6%

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

Performance

The fund gained 3,7% over the third quarter. The return lagged the World Index in ZAR which was up 5,5%. In US dollar terms the fund declined 1,7% versus the World Index which was flat for the quarter. Year to date the fund is up 12,2% in USD, broadly matching the World Index and has delivered 15,6% return in ZAR terms. Over the last 5 years the fund has compounded at an annualized rate of 16% in US$ and has generated over 2% of annual alpha (excess return) over the World Index. Since inception in September 2014, the fund has delivered over 17% compound annual returns in ZAR and has steadily outperformed the MSCI World Index over that time. Over the last seven years the fund is ranked 1st versus its peers and is a consistent top quartile performer over almost all periods. While investment styles go in and out of fashion, we believe the relative consistency of performance bears testimony to the persistence and merits of our investment approach, as well as our ability to deliver our philosophy in a methodical and disciplined manner through various market cycles.

Global Macro

Developed markets were flat for the 3rd quarter, notwithstanding the World Index reaching an all-time high in early September. Strong earnings numbers and supportive comments from the Fed lifted markets for most of the quarter, only to fade off during September as fears around the continued Covid impact on growth, and inflationary pressures due to energy prices and supply chain disruptions mounted. Emerging markets did poorly declining 8% in the quarter, largely driven by the Chinese market selloff. Regulatory reach over the likes of Alibaba and Tencent in November 2020 expanded into a regulatory crackdown that began with a focus on for profit education and then extended to online gaming. Further China risk aversion grew as the major property developer China Evergrande collapsed during the quarter as it missed substantial bond coupon payments. The company is currently suspended, and substantial defaults are to be expected. While many currently consider China “uninvestable”, the Chinese market is now at the same level it was 4 years ago and has returned only a third of the World Index over the last 5 years. As the second largest economy with strong technology adoption and enormous room for growth in GDP per capita, we believe that while there are certainly challenges to consider, it would be shortsighted to dismiss China and in turn some of the excellent companies that operate there. The bond market was flat over the quarter with the US10 year ending at 1,49% yield. Commodities were broadly up – primarily driven by strong gains in Natural Gas and upward pressure in the energy complex. While absolute market valuations appear elevated versus history, more than 80% of companies are beating on revenue expectations and by a historically high amount. This is a function of pent-up demand and a robust consumer following lock down savings and direct government handouts. Companies are sustaining high margins confirming they have pricing power. The risk / reward for equities remains favourable compared to the bond market.

Portfolio

The top contributors in the quarter included Blackstone (+20%), Gazprom (+36%) and AutoZone (+13%). We discussed the merits of Blackstone transitioning from finite funds to permanent capital last quarter and we think there remains substantial value uplift from this process. Gazprom is obviously a clear beneficiary of rampant increases in gas prices with 80% of contracts linked to hub prices. AutoZone, a high quality compounder continues to benefit from tightness in the motor vehicle market, reinvesting its cash generation in shrinking the equity base. Unsurprisingly two of the largest detractors from performance were Chinese investments Alibaba (-35%) and Tencent (-21%). While the short term outlook is unclear for these companies, one should not lose sight of the huge monetization opportunities that still remain for these companies. We continue to look for high quality companies that have a runway of growth.

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