BlueAlpha BCI Global Equity Fund – Class A
Quarter 1 2022

BLUEALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	**3.9%**	0.5%	9.2%
3 Years (annualised)	**13.8%**	12.4%	15.9%
5 Years (annualised)	**15.6%**	11.1%	14.8%
Since Inception (annualised)	**15.3%**	10.7%	14.4%

Inception date: September 2014, 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

Asset & Sector Allocation	
Cash	6%
Equity	94%
Consumer Discretionary	26%
Consumer Services	2%
Financials	12%
Health Care	10%
Industrials	11%
Technology	33%

Top 5 Global Holdings

BlackRock
AutoZone
Broadcom
KLA Corp
Blackstone

Equity Holdings by Geography	
USA	93%
Europe	5%
Asia	2%

Portfolio Manager: Richard Pitt / Walter Jacobs
Commentary for the Quarter ended March 2022

Performance

Within the context of a risk off environment driven by rising geopolitical tensions and a pivot in the Feds stance, the fund declined by 15,3% in ZAR over the first quarter. A broad rally in commodity prices and a weak local economy has benefited the terms of trade of South Africa, driving a 10% appreciation of the ZAR against the US$. In dollar terms the fund declined by 7,8% - lagging the performance of the broad market. Notwithstanding a tough quarter the fund remains up approximately 4% in both US$ and ZAR over the last 12 months. Over the last 5 years the fund has compounded at an annualized rate of 13,6% in US$ and has generated 1,2% of annual alpha (excess return) over the World Index. Since inception in September 2014, the fund has delivered over 15% compound annual returns in ZAR and has steadily outperformed the MSCI World Index during that period. Over the last seven years the fund is ranked 2nd versus its peers and is a consistent top quartile performer over almost all periods. While there are potential shifts taking place across different investment styles – specifically growth versus value – we remain committed to focusing on quality businesses with high economic returns and an ability to reinvest in their own market opportunity. We remain convinced that in the longer run one of the most reliable factors that drives investment returns in equities is the ability for companies to genuinely grow their cash earnings for extended periods of time. We believe the compounding effect of companies reinvesting at high economic returns is routinely underestimated by investors. Regardless of style shifts in the market, we are committed to focusing on delivering our approach in a consistent and disciplined manner.

Global Macro

Following a strong year in 2021 the first quarter of 2022 proved to challenging for both equities and bonds. Going into the year the topic of elevated inflation, high market valuations and the prospect of Fed rate hikes was a clear threat to the investment environment. As the Fed tone got more hawkish market expectations of up to 7 hikes caused a sell off in growth and a rally in value stocks. At the same time geopolitical tensions between Russia and the Ukraine were growing, culminating in a full-scale invasion on the 24th of February. Not surprisingly the intra month drawdown for the World Index reached 13% during the quarter. Russia is a major energy producer and together with the Ukraine supplies about 30% of global wheat exports. The ongoing war will clearly add to the surge in inflation, impact supply chain disruption further and in turn must be a risk factor for global growth. Surprisingly, Europe is now flat from the invasion date and the S&P500 and World Index are up over 5% from that date. For the quarter, the World Index declined by 5% in US$ which given the news seems a good outcome. Rotation was in play with Value down 1% and Growth down 10% - though a lot of this is driven by the fact that energy makes up a large part of the value index. Emerging markets declined by 7% and China was also weak given a very stringent Covid response to a new Omicron outbreak and continuing regulatory oversight measures. The US 10 year Treasury had one of its worst selloffs on record with the yield rising from 1,5% to 2,3% and is currently above 2,6%. It seems inevitable that rates need to go up due to inflationary pressures – counterbalanced by some of the geopolitical issues. Now is a time to own companies with pricing power and margins large enough to withstand increases in input costs.

Portfolio

The combined and related outperformance of style (Value over Growth) and sectors (Energy and Utilities over Consumer Discretionary and Technology) negatively impacted the portfolio on a relative basis. Ironically our only direct energy exposure was Gazprom which would normally be a beneficiary of tight gas markets – of course the invasion and subsequent suspension of the company because of sanctions on Russia meant that a large portion of the funds 2% underperformance can be attributed to this position. We had a few investments that did very well. The top contributors in the quarter included AbbVie (+20%), Lockheed Martin (+2%) and Berkshire Hathaway (+17%). AbbVie, a business with good returns and strong cashflow has gone from extremely cheap to good value and has rerated as the market has started to appreciate the growing diversification within its portfolio of biopharma products. Lockheed Martin is obviously a beneficiary from increased geopolitical risks and potential increases in military spending – however we have been invested in the company for some time based on its long-term history of high returns and value creation and a modest valuation that suggested a complete fall off in military spending. Aside from Gazprom, the next worse performer was Meta. The market appears to have overreacted to forecast slowing growth and increased competition from other platforms. The company remains a dominant social media platform and has a business model that delivers high margins and remarkable profitability. The company is valued at its cheapest level in history and at a discount to the broad market. Given the many market uncertainties and the interest rate path ahead our portfolio is focused on high return companies that generate strong cashflow for reinvestment in growth.

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