BlueAlpha BCI Balanced Fund- Class C
Quarter 2 2022

BLUEALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Benchmark*	Outperformance
1 Year	**5.1%**	3.1%	**2.0%**
3 Years (annualised)	**5.9%**	6.6%	**-0.7%**
Since Inception (annualised)	**5.2%**	4.9%	**0.3%**

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	37%
Global Equity	33%
Property	10%
Bonds	9%
Commodities	5%
Cash	6%

Top 5 Domestic Holdings	Top 5 Global Holdings
New Gold Platinum ETF	AbbVie
Sasol	UnitedHealth
British American Tobacco	AutoZone
Glencore	Pfizer
Anglo American	Lockheed Martin

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

Performance
For the quarter, the fund returned -7.9% vs. the benchmark's -5.5%. Over 12 months, the fund outperformed, returning 5.1% vs. the benchmark's 3.1%.

Macro
Global markets had a very challenging quarter adding further declines after a tough start to the year. First half performance for the MSCI World Index is the worst since its inception 34 years ago. The main driver of the decline in both equities and bonds is the increase in interest rates (implemented and anticipated) in an attempt by central bankers to reign in rampant inflation. Rising rates have had a very direct impact on the price of almost all risk assets – and especially those with high duration earnings and cashflows – specifically growth stocks. A combination of higher prices for goods and services (inflation) and a rising rate cycle (higher borrowing costs) have made the prospects of a recession more likely. Not surprisingly recessionary fears drove all asset classes down for the quarter from commodities (-5.7%) to bonds (-8.3%) to equities – with developed markets (-16.1%) faring worse than emerging markets (-11.3%). Year to date commodities remain the only asset class in positive territory (+18.4%) while global bonds are down (-13.9%) and global equities have fallen the most (-20.3%). While the value style, in part supported by energy, has outperformed – it is nonetheless down (-11.8%). The growth style has fared the worst, falling 28.7% year to date. While these declines are never easy to stomach, the good news is that as markets have fallen, lower valuations are building the base for more attractive prospective returns. Equities are now at similar valuation levels to the March 2020 pandemic and December 2018 growth scare. It is worth remembering that over the last 10 years or so there have been numerous risk events including possible Greek debt default and the China growth scare. Regardless, equities have done well – and well managed, high-quality businesses with moats – even better. Now is exactly the time to be buying such businesses.

The news isn't much better for SA markets with the JSE Capped Swix down 10.7% for the quarter and the rand losing 11% against the dollar. South African Bond yields are trading at 11.0% at end-September (vs. 10% at end-March) and the market is pricing in at least 200bps over the next 12 months. Inflation is the word on everyone's lips, and for good reason. The May data shows inflation at 6.5% YoY which was driven largely by food inflation (7.5% YoY). We are concerned that there is a lot more upward pressure on SA food inflation than currently forecast. Saying that, we are also in the fortunate position to produce a lot of our own food. Between stronger agricultural production and high soft commodity prices there are some SA sectors that are going to benefit from this economic downturn.

The Portfolio
Domestic equity stock changes this quarter included selling out of Sibanye Stillwater, Impala Platinum and Pepkor. We also sold out of Growthpoint and increased our exposure to Hyprop.

The offshore component detracted from returns this quarter as a result of highly agitated global markets and a weakening rand. However, there were some stocks that shone through, AutoZone +5.1% (USD) and Pfizer+2.1% (USD) QTD. We added Lockheed Martin to the fund this quarter.Regarding the change in the regulation for offshore allowance, we are aiming to move towards the new maximum limit but will do so gradually, as SA stock ideas run their course and new opportunities offshore present themselves.

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