BlueAlpha BCI Global Equity Fund – Class A
Quarter 2 2022

BLUEALPHA
INVESTMENT MANAGEMENT

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	**-6.5%**	-8.1%	-2.7%
3 Years (annualised)	**11.3%**	10.2%	12.8%
5 Years (annualised)	**13.8%**	9.5%	12.4%
Since Inception (annualised)	**13.9%**	9.8%	12.9%

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	3%
Equity	97%
Consumer Discretionary	30%
Consumer Services	0%
Financials	11%
Health Care	11%
Industrials	12%
Technology	33%

Top 5 Global Holdings
BlackRock
AutoZone
UnitedHealth
KLA Corp
NVR Inc

Equity Holdings by Geography	
USA	92%
Europe	5%
Asia	3%

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

Performance

In the context of a very challenging investment climate, the fund declined by 15.3% in USD terms over the second quarter. This was a slightly better outcome than for the World Index which fell by 16.2%.
An 11% depreciation of the Rand over the quarter resulted in a more modest 5.9% decline in local currency terms. While South Africa certainly has its own share of idiosyncratic risk in the form of political tensions and Eskom, it is also quite typical for the currency to depreciate during risk off periods – which provides a buffer of sorts to the decline in global asset prices. Year to date the fund has underperformed the world index by about 1.5% but is ahead of quality style index that is representative of the typical types of companies we seek to invest in. The last year has been a challenging environment for growth investors which has also impacted the fund as we prefer companies that have both growth and quality metrics. Despite lagging the market over the last year, over 5 years the fund has compounded at an annualized rate of 13.2% in ZAR and has generated almost 1% of annual alpha (excess return) over the World Index. Since inception in September 2014, the fund has delivered 1.2% 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 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.

Portfolio

Sector exposure had a negative impact on performance with an overweight in lagging sectors such as Technology and Consumer Discretionary – and no exposure to leading sectors such as Energy and Utilities. The top contributors to performance over the quarter were AutoZone, Alibaba and Pfizer – all of which managed to deliver positive returns notwithstanding a 16% plus decline in the World Index. AutoZone is a longstanding investment and is a business we believe will continue to thrive notwithstanding inflation pressures or recession risk. The average age of the vehicle pool in the US continues to rise – supply constraints and a tough economic climate will support this tailwind for the company. PayPal, Amazon and Target were the largest detractors from performance. Like many retailers Target experienced a dramatic shift in sales mix, leading to a significant increase in inventories and decline in operating margins. Notwithstanding these short-term challenges, the company has generated high returns for 20 plus years. Target remains a best-in-class retailer and is now priced very attractively.

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