BlueAlpha BCI Balanced Fund- Class C
Quarter 3 2022

BLUEALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Benchmark*	Outperformance
1 Year	**-2.2%**	0.4%	**-2.6%**
3 Years (annualised)	**6.2%**	6.6%	**-0.4%**
Since Inception (annualised)	**4.8%**	5.2%	**-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	32%
Global Equity	39%
Property	8%
Bonds	9%
Commodities	6%
Cash	6%

Top 5 Domestic Holdings
R2032 8.25%
New Gold Platinum ETF
Richemont
Glencore
British American Tobacco

Top 5 Global Holdings
UnitedHealth
AutoZone
AbbVie
Lockheed Martin
Apple

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

Performance
For the quarter, the fund returned -0.5% vs. the benchmark's -0.1%. Over 12 months, the fund returned -2.2% vs. the benchmark's 0.4%.

Macro
Looking at the Global Macro environment, while equities and bonds rallied strongly in July, both markets reversed sharply from mid-August through to quarter end – finishing the quarter down 6% and 7% respectively. The change in risk sentiment was clearly linked to the tone emanating from the Jackson Hole Summit where the Fed and other central banks firmly communicated the commitment to fighting inflation versus supporting growth. During the quarter the Fed hiked by 1.5% and the ECB by 1.25%. To the extent that inflation remains the guiding light for global central bank policy, this seems to be the key data point around which risk appetite will hinge. A rising rate cycle driven by what is likely sticky inflation factors combined with a slowdown in growth hardly feels like an attractive investment environment. The counter to this is that markets are forward looking mechanisms, inflation and therefore rates will at some point roll over and perhaps most importantly equities have become cheaper - and in many instances a lot cheaper. The World Index now trades below its long-term average on a PE basis and only 14 x earnings on a forward basis. Barring a total collapse in earnings – this is increasingly becoming good value. As we have no ability to know when risk sentiment will turn, the best we can do is ensure that the portfolio is invested in high return businesses that have a long history of generating real economic profits.

The local environment is mirroring what we have seen abroad. The JSE Capped SWIX continues its year-to-date trend and fell a further 2.4% in the quarter, bringing this year's index return to -7%. These pressures were exacerbated by weak consumer sentiment given rising food prices and broader inflation. The Rand depreciated a further 10% against the USD this quarter, following other emerging markets falling out of favour as investors prefer hard currency. The consensus for the SARB's path is to continue its hiking path by another 200bps.

The Portfolio
Two of our biggest overweight position were also our top contributors this month, Shoprite (+11.5%) and Glencore (+14.3%). Capitec, an overweight in the fund, was the biggest detractor this quarter (-21.7%). Capitec made the decision to lower transaction fees, which has consequences in the short term, but makes for a more defensible business proposition in the longer term. In the current environment investors are questioning what the sustainable growth rates look like for local businesses and have reduced their investment horizon to reflect a more conservative stance.

Looking at the Offshore component, we added Ulta Beauty this quarter which was also one of the biggest contributors to returns (+1.9% USD). Home Depot (+1.3% USD) also contributed to returns. This quarter we added the Chemical Manufacturing Company, Albemarle. Albemarle has invested $2.0b in Lithium projects which now contribute more than 40% of sales, the company is well positioned to benefit from the growing demand for Lithium as the world transitions to net zero carbon emissions.

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