BlueAlpha BCI Global Equity Fund – Class A
Quarter 3 2022

BLUEALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	**-7.4%**	-9.4%	-3.9%
3 Years (annualised)	**11.2%**	8.3%	11.4%
5 Years (annualised)	**11.7%**	8.3%	11.6%
Since Inception (annualised)	**13.8%**	9.6%	13.5%

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	4%
Equity	96%
Consumer Discretionary	32%
Financials	10%
Health Care	11%
Industrials	12%
Technology	31%

Top 5 Global Holdings
NVR Inc
Microsoft
AbbVie
Home Depot
AutoZone

Equity Holdings by Geography	
USA	92%
Europe	6%
Asia	2%

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

Performance

The difficult and challenging investment environment for risk assets persists. The fund declined by 7.5% in USD terms over the third quarter. Over the same period the World Index fell by 6.2%. As is usual when risk becomes foremost in investors' minds, the Rand depreciated over the quarter resulting in a 2.7% gain for investors in local currency terms. As we have mentioned before – this is typical behaviour of the Rand in risk off periods – providing some sort of buffer to the decline in global asset prices. While the Rand is arguably in "cheap" territory when measured on a purchasing power basis, we would caution investors to change allocations based on this. Aside from the fact that currencies are notoriously difficult to call, South Africa has some very real challenges of its own that are steadily accumulating – more relevant for any investor is the breadth and depth of high return companies that are available in the global investment landscape versus a rather small opportunity set in South Africa. Year to date the fund has lagged the World Index by roughly 2%. This is broadly explained by our exposure to high quality companies that have growth prospects. While this style is not working particularly well at present it is worth noting that over the last 30 odd years of investment history, one of the best performing investment approaches is that which intersects between Quality and Growth. Year to date the fund is ahead of both standalone Growth and Quality factors – while lagging the Value factor which is typically not populated with companies that generate high returns on invested capital. Over 5 years the fund has compounded at an annualised rate of 11.7% in ZAR and is just ahead of the World Index. Since inception in September 2014, the fund has returned 13.8% annualised which is more than 4% per annum of excess return compared to the sector average. 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

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.

Portfolio

The top contributors to performance over the quarter were Crocs (41%), PayPal (23%) and Amazon (6%). PayPal raised guidance in the quarter, announced cost cutting measures, a new US$15bn share purchase program and saw the arrival of activist shareholder Elliott on its share register. The company trades at similar levels to the March 2020 Covid low. We purchased Crocs – the iconic footwear brand during the 2nd quarter following a 70% odd decline on the announced acquisition of the Hey Dude brand. While the market has concerns on the price paid, we feel that diversifying from a single product line and expanding the range through their various channels makes good business sense. The company has best in class margins, a good track record of capital allocation and is generating high returns with strong growth prospects ahead of it. Given these attractive factors the modest valuation represents a great opportunity.

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