BlueAlpha BCI Balanced Fund- Class C

Quarter 4 2022

BLUEALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Benchmark*	Outperformance
1 Year	**-7.4%**	0.0%	**-7.4%**
3 Years (annualised)	**6.4%**	8.0%	**-1.6%**
Since Inception (annualised)	**5.8%**	6.5%	**-0.7%**

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	33%
Global Equity	40%
Property	8%
Bonds	9%
Commodities	4%
Cash	6%

Top 5 Domestic Holdings
R2032 8.25%
Richemont
Glencore
Redefine Properties
British American Tobacco

Top 5 Global Holdings
AutoZone
AbbVie
UnitedHealth
Lockheed Martin
Broadcom

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

Performance

For the quarter, the fund returned 5.1% vs. the benchmark's 6.8%. Over 12 months, the fund returned -7.4% vs. the benchmark's 0.0%.

Macro

2022 was bad year for global markets marked by war, Inflation and a hawkish Fed. Both the S&P 500 and the MSCI World Index ended the year down -18% in USD, while US bonds also fell by -13% (a historical low). It is extremely rare for both equities and fixed income to have double digit negative returns. The biggest casualty of 2022 has been speculative assets such as SPACS, Crypto, unprofitable tech and companies like Tesla, which have all been exposed by rising interest rates and quantitative tightening.
Inflation has already started to moderate however the Fed has signalled that rates will stay high until inflation gets back into its band, and the path of more quantitative tightening means more pain to come for speculative assets. The market can only really start getting excited about interest rate cuts when employment goes backwards in the US. Currently the USA is still creating jobs at a healthy rate.

South African markets ended the year on a far better note with SA Bonds and JSE Capped SWIX up +4% (ZAR) for the year. However, the South African economy is deteriorating due to the failures of Eskom. At long last China is reopening but we are sceptical about what this means for commodity prices which are vital for the SA economy. The oil price shows that there isn't a straight correlation between China reopening and high commodity prices. The price of Brent Crude Oil has been flat since China relaxed restrictions at the beginning of December. We are still quite nervous of commodity related companies because we think their best time (margins and costs) are behind them. We do think South African consumer facing companies are doing a good job with cutting costs and right sizing, but all of them except for the food companies are missing top line growth.

Going into 2023 the fund is positioned to deal with structurally lower growth in South Africa. We think it is more prudent than ever to invest in companies with capable management teams and sound business models as they stand the best chance at navigating a low growth environment. Many cheap stocks exist in South Africa, and high-quality, low growth companies are also abundant. Growth companies with historically good returns are difficult to come by. Capitec, Richemont and Shoprite fit this bill and we are overweight all three.

The Portfolio

Richemont, which struggled in Q3 has taken back performance and was the top contributor in the fund this quarter - Capitec (+30.4%). Other notable contributors were Redefine Properties (+24.8%) and Glencore (+19.2%). Changes to the local equity allocation included selling out of Foschini and Mr Price and buying Truworths and Woolworths. We also sold out of Equities Property Fund and bought Liberty Two Degrees.

The offshore component was a top contributor to returns this quarter (+4.5% in ZAR). Stocks worth mentioning are Lockheed Martin (+26.7% USD QTD) and AbbVie (+21.6% USD QTD). Selling our position in Meta Platforms was the only change made to the global allocation.

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