BlueAlpha BCI Global Equity Fund – Class A

Quarter 4 2022

BLUEALPHA INVESTMENT MANAGEMENT

Performance Period	Fund Return	Sector Average	Benchmark
1 Year	**-16.2%**	-14.1%	-8.9%
3 Years (annualised)	**11.0%**	8.9%	13.0%
5 Years (annualised)	**12.6%**	9.8%	13.4%
Since Inception (annualised)	**13.7%**	9.9%	13.1%

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

Top 5 Global Holdings
NVR
Crocs
Broadcom
KLA Corp
Home Depot

Equity Holdings by Geography	
USA	93%
Europe	5%
Asia	2%

Asset & Sector Allocation	
Cash	3%
Equity	97%
Consumer Discretionary	33%
Financials	10%
Health Care	11%
Industrials	13%
Technology	30%

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

Performance

After a very tough 3 quarters global markets rallied in the final three months and most notably in November. The fund gained 2,4% in ZAR over the fourth quarter – lagging the World Index which returned 3,5%. It was a challenging year with the fund declining 16,2% in Rand terms – lagging the World Index. Depreciation of the ZAR and against the US$ by roughly 7% was a benefit during the year. Over the last 5 years the fund has compounded at an annualized rate of 12,6% in ZAR and notwithstanding a challenging 2022 has performed in line with the World Index. Since inception in September 2014, the fund has delivered 13,7% compound annual returns in ZAR and has outperformed the MSCI World Index during that period. Over the last eight years the fund is ranked 1st amongst its peer group and is a consistent top quartile performer over most all periods. While the debate about an apparent sea change in investment styles rages, (specifically from Growth to Value) over the long run investment returns at a company level are largely driven by the company's ability to grow their real cash earnings for sustained periods of time. With this in mind, we seek to invest in companies that are able to generate high rates of cash return on their invested capital and have a market opportunity to reinvest in for growth. We remain committed to this approach with a keen eye on valuation risk given an environment of higher interest rates and a higher effective cost of capital.

Global Macro

2022 was bad year for global markets marred by war, elevated inflation, and central bank tightening of financial conditions through sustained interest rate hikes. Both the S&P 500 and the MSCI World Index ended the year down -18% in USD even with a rally in the 4th quarter), 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 – leaving investors with no place to hide. 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. Value stocks did significantly better than growth stocks over the year. Part of this is explained by starting valuation differentials – growth stocks starting the year at 30 times expected earnings versus value at 14 times – and of course the impact on rising interest rates on valuations. While inflation has already started to moderate the Fed has signalled that rates will stay high until inflation gets back to more moderate levels, and the path of further quantitative tightening means more headwinds 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 and unemployment is at 5-year lows. While the macroeconomic prospects do not look terribly enticing for the year ahead with at least a moderate recession likely – markets are continually looking 12 to 18 months forward and we may have well already priced in the foreseeable risks in economic slowdown.

Portfolio

The top contributors in the quarter included Crocs (+58%), BlackRock (+30%) and Broadcom (+27%). We invested in Crocs at depressed valuations as the company sold off following a substantial acquisition of Hey Dude and concerns about debt on the balance sheet. Our non-consensus view which appears to be playing out is that this provided both diversification and an additional growth trajectory. Broadcom is a long-term holding benefiting from tailwinds of the cloud, data centers and 5G. The biggest losers last quarter were Amazon (-25%), PayPal (-17%) and Meta (-11%). While these investments are all under review, in certain cases a lot of potential value is starting to appear given the poor sentiment and extent to which these companies shave been sold down. We continue to focus our efforts and attention to finding high quality growth compounders to invest in.

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