# BlueAlpha BCI Global Equity Fund – Class A

## Quarter 1 2024

BLUEALPHA INVESTMENT MANAGEMENT

| Performance Period | Fund Return | Sector Average | Benchmark |
|---|---|---|---|
| 1 Year | **34.8%** | 27.7% | 33.2% |
| 3 Years (annualised) | **15.2%** | 13.0% | 17.9% |
| 5 Years (annualised) | **16.7%** | 15.3% | 18.5% |
| Since Inception (annualised) | **16.5%** | 12.5% | 16.0% |

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 | 8% |
| Equity | 92% |
| Consumer Discretionary | 36% |
| Financials | 9% |
| Health Care | 9% |
| Industrials | 12% |
| Technology | 30% |
| Basic Material | 1% |
| Other (Option) | -5% |

| Top 5 Global Holdings |
|---|
| CROCS |
| Qualcomm |
| Meta |
| Dominos |
| Servicenow |

| Equity Holdings by Geography | |
|---|---|
| USA | 96% |
| Europe | 2% |
| ASIA | 2% |

**Portfolio Manager: Richard Pitt / Walter Jacobs**
**Commentary for the Quarter ended March 2023**

### Performance

The fund delivered a strong return in the quarter gaining 9,4% in USD terms. This was ahead of the World Index which gained 8,9% is US dollars in a buoyant market environment. Rand depreciation added to returns which in local currency amounted to 13,4%. Over the last 5 years the fund has compounded at an annualized rate of 16,7% in ZAR. Since inception in September 2014, the fund has delivered a similar annualized return and has delivered 332% total return to investors. Over the last nine years the fund is ranked 1st amongst its peer group and is a consistent top quartile performer over almost all periods. Our investment approach has remained consistent through time. It is premised on the idea that in the long run investment returns are largely driven by the company's ability to grow their real cash earnings for sustained periods. To do this they must be able to generate high rates of cash returns when measured against the capital required, and they must have a growth opportunity to reinvest this cash over time. While there will always be cycles to the particular investment style that is in favour, the long-run performance of our fund is confirmation of an investment approach that is well anchored around good business sense. We remain committed to this approach with an ever-present eye on valuation risk which is not atypical for these high return type of companies.

### Global Macro

Global markets enjoyed the best start in 5 years against a backdrop of robust economic data, a shift in expectations to an extended economic cycle and soft landing, and dovish commentary from the Fed around interest rate policy. Optimism around the business opportunities within AI have also been a driver of increased valuation multiples. Nvidia – the poster child of AI – rallied 80% during the quarter adding US$1tn to its market capitalisation. This is equivalent to one-fifth of the total value gain for global stock markets over the period. The performance of the "magnificent seven" has started to diverge with Apple and Tesla both declining in the quarter. Second to the outlier performance of Nvidia – Meta also had an excellent quarter gaining roughly 40%. While the strong performance of mega caps obviously adds more to total returns, there has been a healthy broadening in the performance of stocks with the equal-weighted SP500 also breaking through its all-time high.

The leading sectors over the quarter were Consumer Services, Energy, and Technology. Utilities and Real estate lagged. Resilient economic growth and an unexpected increase in inflation has led to a moderation of investors' expectations for interest rate cuts from 6 to 3 this year which is now aligned with the Fed's projection. In line with this shift in thinking, global bonds declined by 2% over the quarter as yields moved higher. The strong moves in both Bitcoin and Gold also speak to an unusual monetary environment. According to global fund manager surveys – two-thirds of those polled do not expect a US recession in the next 12 months. At the beginning of 2023, this number was 10% - a soft economic landing is clearly the current consensus and area of potential surprise and risk for markets going forward. The real challenge will be if the labour market starts cooling while inflation remains sticky or picks up. Under this scenario, the management of interest policy by the Fed will become increasingly challenging.

### Portfolio

The top contributors in the quarter included Crocs (+54%), Meta (+37%) and Domino's Pizza (+21%). While the AI theme and technology was a big driver of market returns, it is pleasing to note that within our top ten, returns came from a more diverse range of traditional quality businesses such as AutoZone, Target, and United Rentals. The biggest detractors from return were United Health (-5%), Albemarle (-8%) and various downside protection PUTS on the S&P500. Given the 5-month upward trend in markets without any significant decline, there is clearly a growing risk of a correction. As such we will continue to hedge a portion of the portfolio as the cost to do so (volatility) remains relatively low. We continue to focus our efforts and attention on finding high quality growth compounders to invest in with keen attention to valuation risk. Over the long run we believe such a portfolio will best serve our investors.