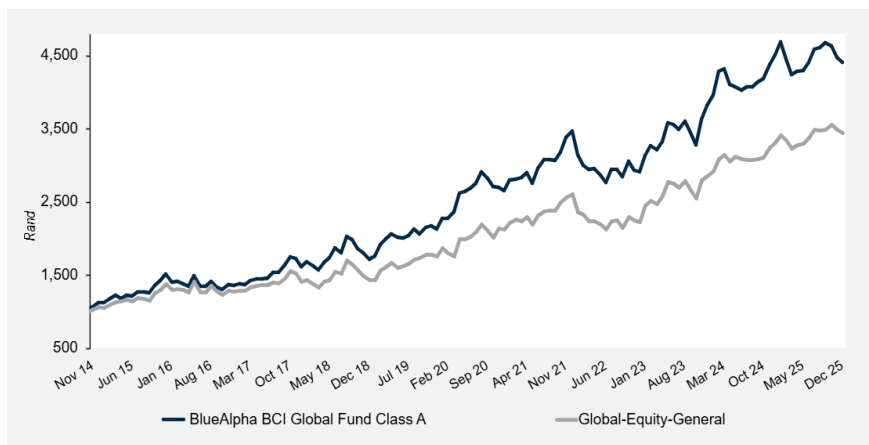




BlueAlpha BCI Global Equity Fund

Our Global Equity Performance



*Benchmark: Global-Equity-General Category Average
Inception: September 2014

Source: Fund Focus (Iress),
Bloomberg

Investment Objective

The primary objective of the BlueAlpha BCI Global Equity Fund is to offer investors a high long term total return by investing across global equity markets.

Our Global Equity Track Record

Performance reported in ZAR	1 Year	3 Years (annualised)	5 Years (annualised)	Since Incept. (Sept 2014 - annualised)
BlueAlpha Return*	-2.2%	14.9%	10.7%	14%
Sector Average	6.1%	16.4%	11.2%	11.6%
Relative Performance	-8.3%	-1.5%	-0.5%	2.4%

*BlueAlpha BCI Global Equity A Class net of fees

Source: Fund Focus (Iress),
Bloomberg

Fund fact sheets (MDDs) available on www.bluealphafunds.com

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In this issue

Investment Focus

Gold: Cash Rich, But at a Crossroads. The gold price hit a record high in 2025, driving exceptional profitability for miners, strengthening balance sheets, and sending JSE-listed gold stocks soaring—more than doubling and outperforming both the gold price and the ALSI. With free cash flow at elevated levels, the sector now stands at a crucial capital-allocation crossroads: whether to return more cash to shareholders through higher dividends or reinvest in underlying mine operations. Although dividend payouts have improved, short reserve lives make reinvestment essential, and with project returns now exceeding the cost of capital, the incentive to reinvest is stronger than ever.

Looking back

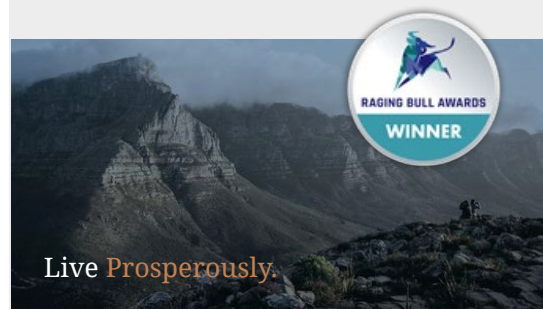
From Freight to Fortune: The Evolution of American Express. American Express began as a delivery business before evolving into a financial services leader through innovations like money orders, travellers' cheques, and charge cards. After crises such as the Salad Oil Scandal, the company refocused on its core card business. Today, Amex earns mainly from merchant fees and card charges, supported by high-spending customers and a strong premium brand.

Chart Focus

Economic Profit: The Real Driver of Value. Economic profit—returns above the cost of capital—drives long-term company value. Firms that grow while earning more than their cost of capital create value; those that don't destroy it. This principle underpins BlueAlpha's focus on quality businesses with strong cash flows and high returns on invested capital.

Book Review

KasiNomics Unleashed - GC Alcock. KasiNomics Unleashed shows that South Africa's informal economy is far larger than commonly believed and supports millions of livelihoods. Informal businesses generate real income despite limited records. Alcock argues that forced formalisation can be harmful and that visibility and support should come before heavy regulation.



Live Prosperously.

Find out more about BlueAlpha – who we are and how we invest – visit our home on the web: www.bluealphafunds.com

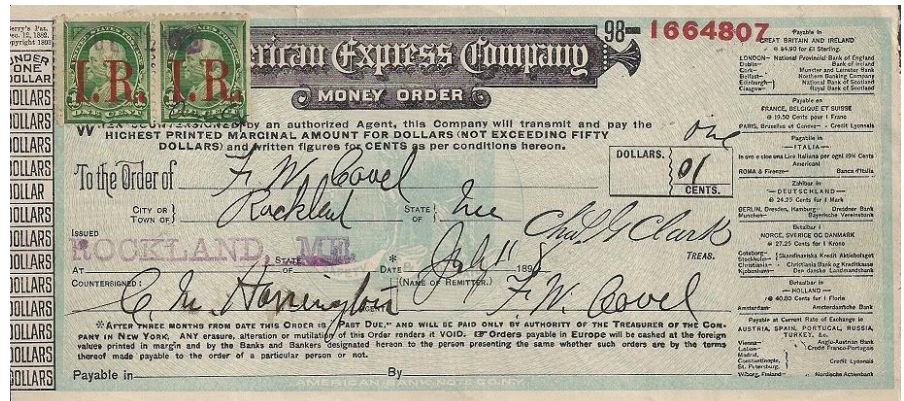


Looking Back: From Freight to Fortune: The Evolution of American Express

The mid-19th century marked a period of rapid expansion for America's express shipping industry. The U.S. post office would not hold anything larger than a letter, which created a market for express delivery services that could handle larger packages. Several powerful companies emerged, namely Wells & Company; Livingston, Fargo & Company; and Butterfield & Wasson, which dominated the express industry at the time. Fierce competition among these central players sharply cut into profits, forcing them to eventually combine. From this merger, American Express Company (often referred to as Amex) was created.

Back then, sending money was a struggle. Families couldn't easily transfer wages amongst each other, and immigrants in the U.S. found it difficult to help relatives overseas. At the time, banks were too costly, and the post office wasn't reliable. As a result, mailing cash carried a high risk of theft. To overcome this, Amex came up with the idea of a Money Order (1882). A money order is essentially a pre-paid cheque, whereby customers would give money to Amex in return for a piece of paper for the equivalent amount. The recipient of a money order could cash it in at any Amex office. What was great was that it could be sent in the mail without drawing any attention, unlike bulky cash packages.

Additionally, Amex managed to benefit from earning interest on the float. Customers sometimes redeemed cash only weeks or months later, so Amex used the float, invested it, and earned interest on it. What began as an express company ended up changing corporate finance and became a financial institution trusted by millions.



AMERICAN EXPRESS

The second financial product Amex introduced was the Travelers Cheque (1891), designed to make it easier for people travelling overseas to access their funds. At the time, personal cheques were often refused by international banks for a variety of reasons (identity verification, varying banking practices, currency mismatches and lack of trust). Now, a customer only had to sign twice, once when purchasing the cheque and a second time when cashing it abroad. The Travelers Cheque solved these problems by being prepaid,

guaranteed by Amex, and universally recognized. Simple but revolutionary.

Over the next few decades, Amex grew larger and continued to serve as the banker for the travelling world. At one point in the early 20th century, Amex became the subject of a takeover; however, the Great Depression hit, and the takeover fell through. Ironically, in retrospect, this was a blessing in disguise, as it preserved the company's independence. Amex weathered the downturn relatively well, thanks to its trusted products and reputation for security when people needed it most. This was a stark contrast to banks and brokers that failed due to speculation.

Differentiated Business Model



Source: Company reports

After WW2, the American economy was booming - people were chasing speed and a modern way of life. In 1958, American Express launched a charge card, following in the footsteps of Diners Club. Customers would use it at stores, restaurants, and airlines, and Amex would cover the bill. At the end of the month, the customer would settle the bill in full, interest-free. The Amex brand was a sign of reliability and trust – but unfortunately, trust can be wiped out. The famous Salad Oil Scandal did just that, and Amex was caught in the fallout of one of the biggest financial frauds of the era.

In the 1960s, Amex operated a division that issued warehouse receipts (collateral for loans or credit). Banks financed the traders, trusting Amex's guarantee. Allied Crude Vegetable Oil Company borrowed substantial amounts of cash, using soybean oil as collateral, and claimed to have millions of gallons stored in its tanks. In reality, most tanks were filled with water, topped with a thin layer of oil to deceive inspectors. When this unraveled, the crisis caused estimated losses of \$175m (approximately \$1.8bn today). Amex alone lost nearly \$58m, and the stock plummeted by almost 50%.

Warren Buffett, who was building a reputation for brilliance at the time, saw this as a temporary crisis. Core operations, such as travelers'

cheques and charge cards, were solid and reliable, which led Buffett to invest approximately 40% of his partnership's assets in Amex. This was one of Buffett's most famous early value-investing moves. At the time of this investment, the company was still reeling from the scandal; however, Amex decided to use it to reinvent its image cleverly. Amex repaid the banks in full, a brilliant financial play, and focused its efforts on the core card business. This saved the company from reputational collapse, and Amex became the name that always delivers.

In the 1990s, Amex launched a membership rewards programme that further strengthened the company's value proposition. For every swipe, Amex received a fee from the merchant, and the more people spent chasing points, the more revenue it generated. What many didn't realize was that many of the points were never redeemed, so it effectively cost Amex far less. This blend of psychology and finance that Amex created was excellent.

Today, the Amex brand has evolved into a lifestyle badge – a membership that signals “you've made it”. The company has become a global payments network, driven by its ability to adapt in an ever-changing market, rivalling major players such

as Mastercard and Visa. The difference, however, lies in Amex's payment model. Unlike Mastercard and Visa, American Express operates a three-party, or “closed loop” platform. This means Amex acts as the card issuer, operates its own payment network and manages merchant relationships. This system enables stronger brand control and allows for tailored products and premium customer services. Most importantly, it enables Amex to gain deeper insights into customer behavior, as both sides of the transaction are visible (i.e. customer spending habits and merchant processing trends).

Amex's customers are typically high-income earners, often described as “spend-centric”. This means the business model is centered on spending behavior and high-value purchases rather than on lending or credit limits. This customer profile distinguishes Amex from traditional banks, which rely on interest income as their primary revenue source. The graph below shows that, over time, Amex's income is predominantly non-interest income, reflecting its transaction-based revenue and loyalty programmes.

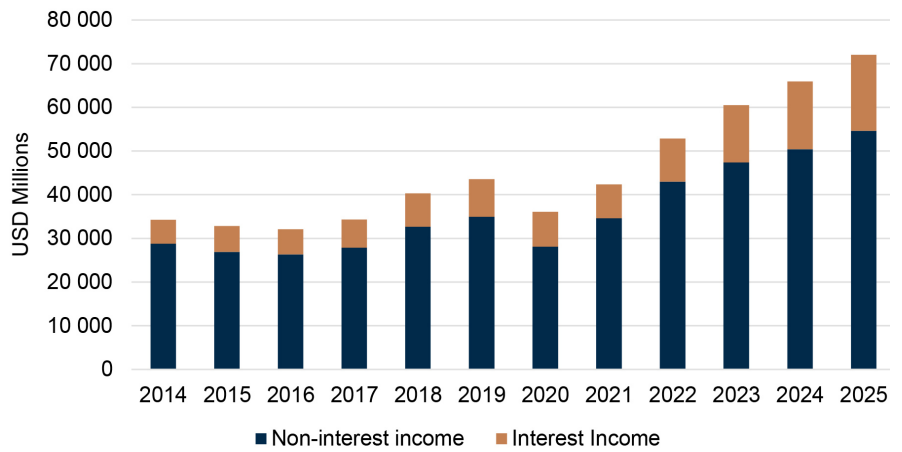
Breaking down revenue further, Amex's primary sources are merchant discount revenue (51.9%), interest income (24.1%), net card fees (13.8%), service fees (7.9%)

and network partnership revenue (2.3%). The chart below shows that merchant discount revenue, often known as a “swipe fee”, is where Amex earns most of its money. Amex’s customer base has higher spending power, which allows Amex to charge higher merchant fees than Mastercard or Visa. Merchants accept this higher fee because the revenue boost from attracting higher-value customers outweighs the higher cost.

These high-net-worth customers also give Amex a competitive advantage in average spend per card, compared with Mastercard and Visa customers. Net card fees are also an important driver of the company’s revenue. Over the last 2 decades, Amex has more than doubled the number of cards in force, from 71 million in 2005 to 153 million cards in 2025. In addition, Amex has achieved this while increasing card fees. The graph below shows the average fee per card rising rapidly from 2016 onwards. During this decade, the average fee has grown at a 12% CAGR, showing that Amex can successfully influence customers to see value in paying for exclusive perks. In real terms, the company aims to offset fee hikes by delivering double the value, and this strategy has certainly proven successful.

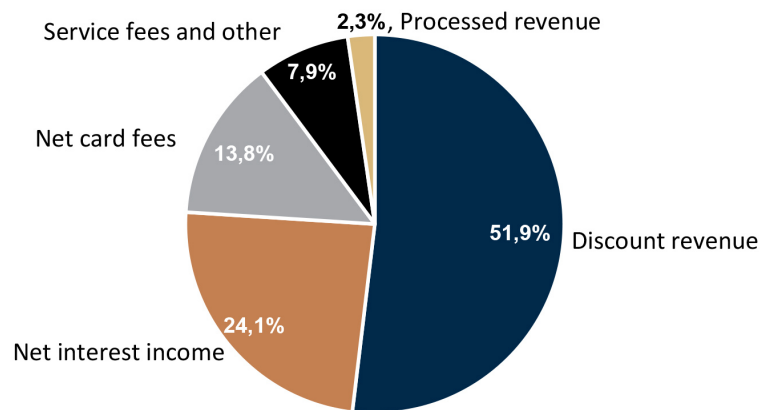
American Express is a financial giant with which customers have an emotional connection to the brand and its products. What was once a parcel delivery business evolved into a symbol of trust and prestige. In a world of continuous innovation, Amex’s unique approach to personal finance keeps customers engaged and fosters long-lasting relationships.

REVENUE SPLIT



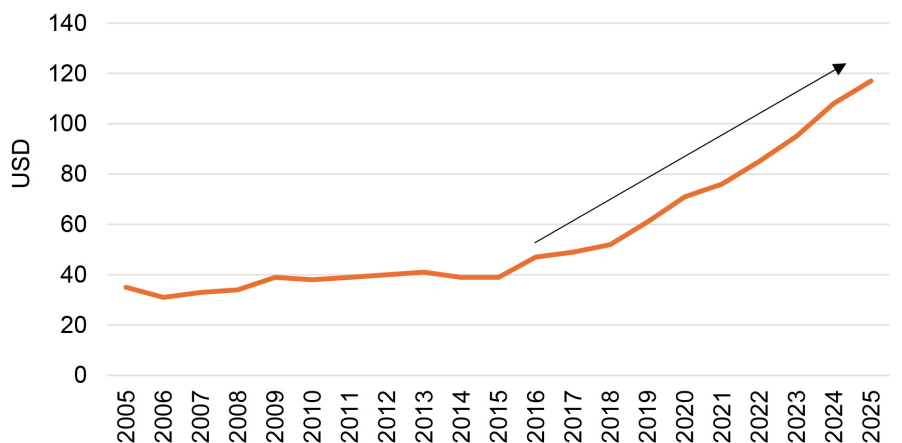
Source: Bloomberg, JP Morgan

REVENUE BREAKDOWN



Source: UBS HOLT

AVERAGE FEE PER CARD



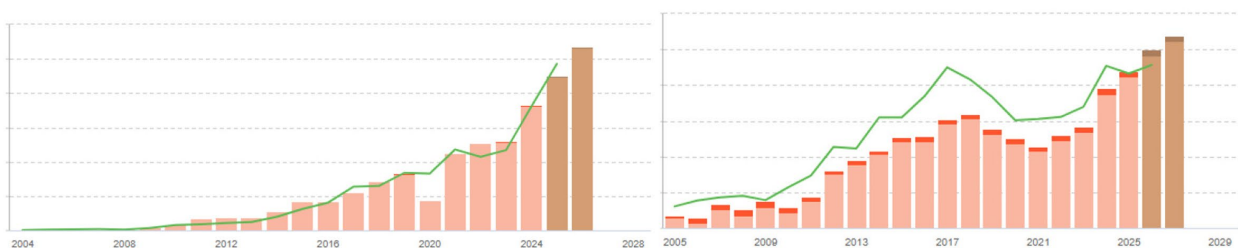
Source: Bloomberg

Chart Focus:

Economic Profit, the value driver

The trend in economic profit shows a strong correlation with the trend in a company's market capitalisation. This is unsurprising, as the theoretical fundamental valuation model shows that changes in economic profit directly translate into changes in valuation.

A visual representation of the statement is presented in the two charts below, which plot the Economic Profit (bars) of Capitec and AVI over time and the company's Market capitalisation (line)



Source: HOLT

Our Investment Philosophy

BlueAlpha's investment philosophy and process focus on identifying companies with a track record of long-term value creation (Quality & Growth). We focus on businesses that generate high returns on invested capital, which translate into real economic profit (as opposed to accounting profit). These companies typically generate strong cash flows, which they can reinvest for growth.

Improvements in economic profit should drive a company's valuation higher over time, and if companies can be identified that have structural factors that help drive economic profit higher over time, that would obviate the need for continuous changes to the portfolio of investments.

Unpacking Economic Profit

Understanding (trends and changes) in Economic Profit is therefore key. It is the objective measure of quality and profitable growth and **underpins the intrinsic value of a company**.

The calculation of Economic Profit is quite simple:

Economic Profit = NOPAT minus a Capital Charge

NOPAT = Net Operating Profit after tax

Capital Charge = Invested Capital x Weighted Average Cost of Capital

Economic Profit is therefore the residual profit after accounting for the full cost of the assets (fixed assets and working capital) used to generate it. As we focus on the operating Income Statement, we should also use the operating Balance Sheet. Surprisingly, several analysts take a shortcut and work with the funding side of the Balance Sheet – Equity + Debt.

As with accounting, it is essential to apply the matching concept. Although Debt + Equity equals Total Assets, it is necessary to distinguish between operating and non-operating Equity. For example, Equity Investments are typically non-operating and are not included in operating profit; therefore, they should not be included in the Invested Capital calculation. Investments are typically a line item on the Asset side of the Balance Sheet, but they are not easily isolated from Equity.

Economic Profit could also be calculated as follows:

Economic Profit = ROIC minus WACC x Invested Capital

ROIC = Return on Invested Capital

WACC = Weighted Average Cost of Capital

As shown in the rewritten formula above, ROIC is a key determinant of economic profit. It also provides a framework for evaluating company strategy. If a company's ROIC is above WACC, it should grow (increase its invested capital base), while growth when ROIC is below WACC will destroy value. This is a simple yet robust way to interpret the efficacy of a company's strategy.

At BlueAlpha, we will be sceptical of a company that states it has a growth objective when its returns (CFROI/ROIC) are close to or below the cost of capital.

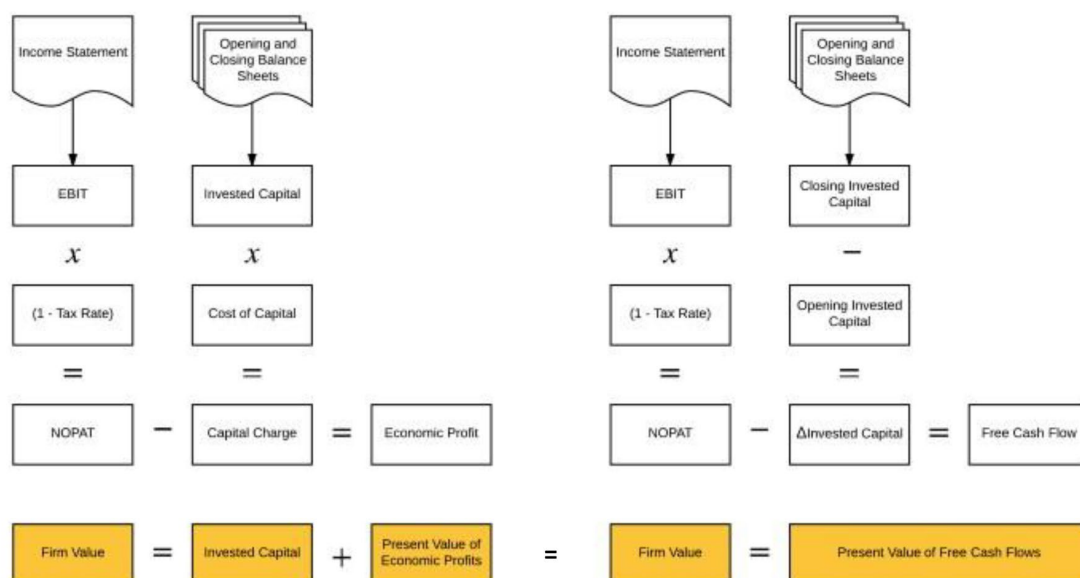
The calculations above show the calculation of economic profit for typical service, industrial and mining companies, but do not include financials. However, with a few adjustments, economic profit can also be calculated for banks, and the valuation framework will also apply.

Economic Profit – The Relationship With Valuation

The beauty of Economic Profit, apart from the ROIC and Growth drivers, is its link to a company's Intrinsic value. An increase in Economic Profit drives an increase in Intrinsic value, and while the price at which a share trades on the stock market is influenced by several factors, including sentiment, over the long run Intrinsic value is a key determinant.

An Economic Profit Valuation model also yields the same results as the traditionally used Free Cash flow model, as shown in the graphic below.

FLOW CHART FOR AN ECONOMIC PROFIT AND FREE CASH FLOW VALUATION



Source: HOLT

It makes sense that an Economic Profit Valuation and a Free Cash Flow valuation would yield the same results, as they are calculated from the same sets of (forecast) financial statements and use the same key drivers, NOPAT, Invested Capital and WACC.

The benefit of an EP valuation is that it is tied back to Invested Capital (Book Value). If a company generates Economic Profit, it will trade above book value, and a company that does not will trade at a discount to book value. This makes it clear that trading at a discount to book value is not, on its own, an indication of "cheapness".

Investment Focus: Gold

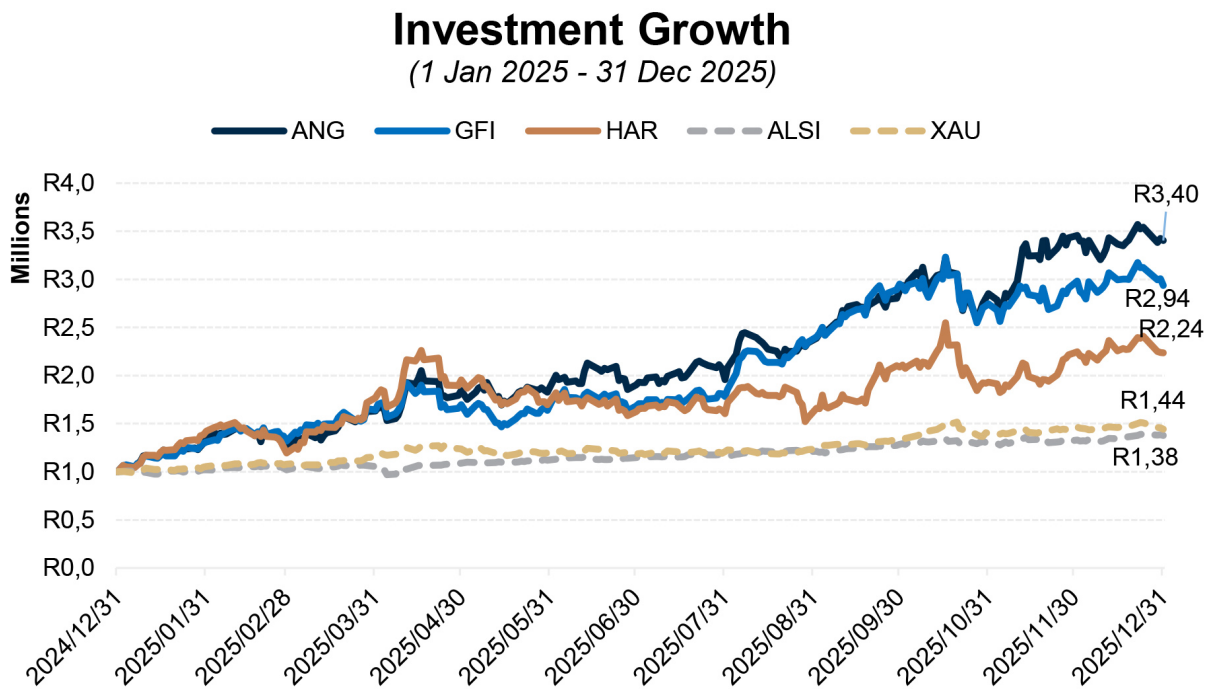
The gold price reached a record high in 2025, delivering exceptional returns for gold miners and leaving their balance sheets in the strongest shape seen in years. With free cash flow (FCF) elevated, the sector now faces a critical juncture: how to allocate capital effectively between rewarding shareholders and reinvesting to secure sustainable growth.

South African Gold Sector Performance

2025 marked the third consecutive year of rising gold prices, culminating in a historic surge that pushed the metal above \$4,200 per ounce. This rally was fuelled by a weakening U.S. dollar, persistent inflation, robust central bank buying, and escalating geopolitical tensions,

which together pushed prices to new highs. Amid these market conditions, three prominent JSE-listed gold stocks recorded their strongest gains in years—each surging by more than 100% in 2025 and substantially outperforming both the gold price (XAU) and the FTSE/JSE All Share Index (ALSI) in rand terms.

FIGURE 1: INVESTMENT GROWTH OVER THE LAST YEAR



Source: Refinitiv, BlueAlpha Investment Management, Note: Returns are measured in ZAR

As demonstrated in figure 1 above, AngloGold (ANG) surged by +240%, Gold Fields (GFI) by +194%, and Harmony (HAR) by +124%, while the XAU and the ALSI rose by +44% and +38%, respectively. Although these producers are price takers and generally benefit from a

rising gold price, idiosyncratic factors have shaped their relative performance within the sector. Chief among these is ANG's dividend policy, which places a stronger emphasis on cash returns to shareholders, driving its outperformance relative to GFI and HAR.

Evolving dividend strategies in South Africa's Gold Sector

Over the past year, South African gold miners have placed greater emphasis on dividend policies compared to previous years, resulting in enhanced shareholder returns. ANG now targets a year-end top-up to deliver 50% of free cash flow (FCF) as dividends, while Harmony (HAR) maintains a 20% commitment. Across the sector, capital allocation policies have shifted towards a more balanced approach, with dividends now comparable to capital expenditure, unlike in previous years when capital expenditure dominated.

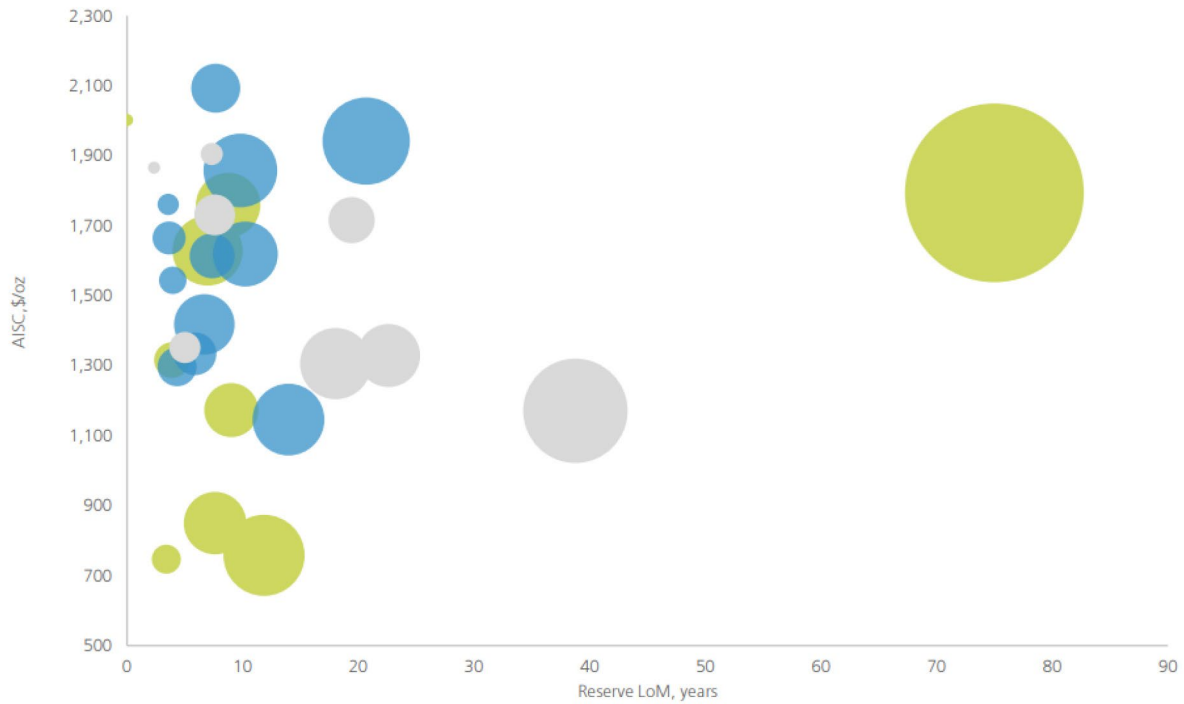
However, with rolling three-year average FCF yields projected to remain well above historical levels, current dividend frameworks seem conservative. Most balance sheets are largely deleveraged, providing financial flexibility for opportunistic investments, enhanced

payouts, or defensive measures during downturns. This dynamic creates room for further shareholder returns as the sector adapts to evolving market conditions and rising investor expectations.

Structural challenges amid strong financials

Despite robust balance sheets, South Africa's gold sector faces a fundamental challenge: mines have finite lives and become increasingly complex as they age. The scatterplot below shows the underlying operations of the three JSE-listed major Gold stocks—ANG (Blue), GFI (Green), and HAR (Grey)—with bubble size representing reserve volumes. Reserves represent the economically mineable portion of resources, and, as shown, many operations have reserve lives of less than 10 years, intensifying pressure to replace them. Without reinvestment, declining volumes and rising costs will inevitably erode production.

FIGURE 2: AISC VS. LIFE-OF-MINE: POSITIONING OF UNDERLYING MINE OPERATIONS



Source: Company estimates, Note: Y-axis shows All-in Sustaining Cost (AISC) and X-axis shows Life-of-mine (LOM)

While management teams have long acknowledged this challenge, they previously lacked the excess cash needed to reinvest in operations. Today's environment, however, presents a unique opportunity: elevated gold prices have driven return on invested capital (ROIC) above the weighted average cost of capital (WACC), making reinvestment highly compelling. Historically, South African miners struggled to maintain ROIC above 10%, highlighting past inefficiencies. Now, with ROIC exceeding WACC, the incentive to reinvest is stronger than ever.

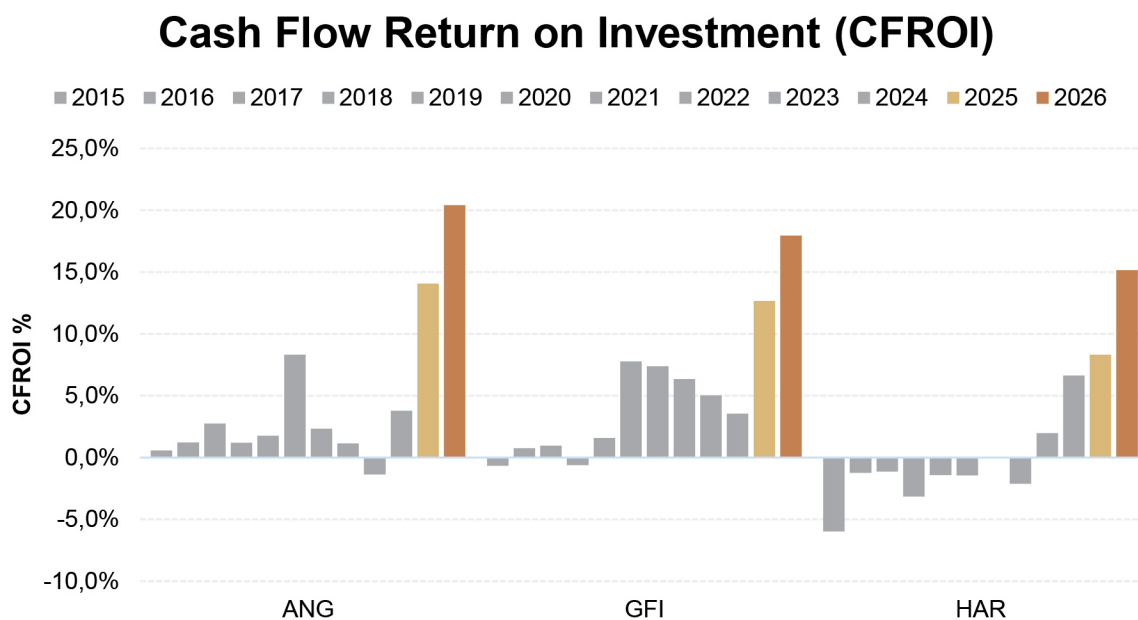
Success, however, depends on disciplined capital allocation and effective project execution. While

companies are at different stages of the capital cycle—some prioritising efficiency, others expansion—they share a common challenge: managing excess cash while balancing shareholder returns with long-term growth.

Gold Outlook remains strong amid geopolitical tailwinds

Geopolitical tensions, recently seen between the U.S. and Venezuela—continue to underpin a positive outlook for gold. With prices above \$4,400 per ounce, most mining operations remain highly profitable and are well positioned to deliver strong results. At current spot levels, many gold miners appear undervalued, offering attractive potential returns.

FIGURE 3: CFROI TRENDS: PAST PERFORMANCE AND FUTURE OUTLOOK



Source: HOLT Lens, BlueAlpha Investment Management

At BlueAlpha, we focus on Cash Flow Return on Investment (CFROI), a metric that reflects a company's ability to generate cash by converting accounting data into cash-based performance. As shown in the chart above, the three leading JSE-listed gold stocks are at, or projected to reach, their highest CFROI levels in decades—signalling robust economic profit generation. We expect these tailwinds to persist into 2026, providing further upside for the sector. With gold stocks accounting for over 15% of the ALSI index, sector exposure remains critical to relative performance. Within this space, we maintain a selective approach, favouring quality names such as AngloGold (ANG) and Gold Fields (GFI).

Recommended Read:

KasiNomics Unleashed – by GC Alcock

A summary of South Africa's informal economy and why it matters.

KasiNomics Unleashed examines the scale, structure and significance of South Africa's informal economy. The book argues that a large portion of economic activity takes place outside formal systems, is underreported in official statistics, and therefore underrepresented in economic analysis, policy design and financial planning.

On one level, the book is about business: how informal enterprises operate, where they succeed, where they fail, and what conditions allow them to survive. On another level, it is a record of small, often overlooked entrepreneurs whose economic activity supports households, communities and local demand.

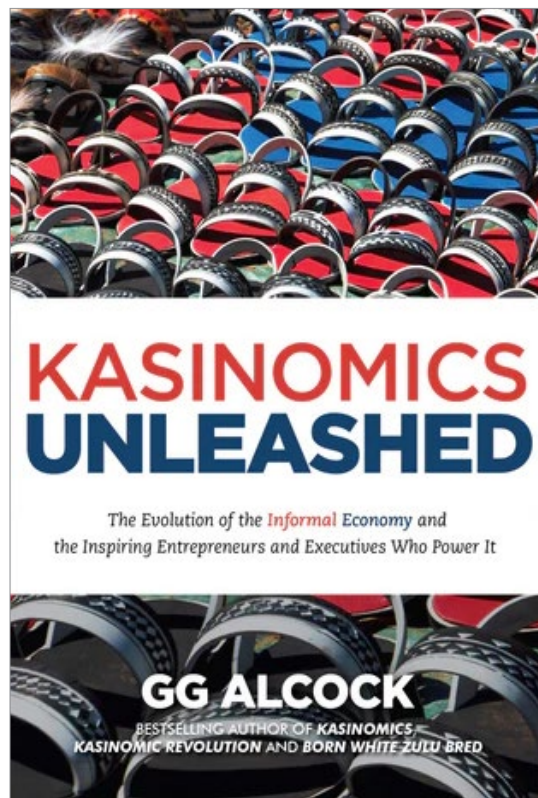
An economy that is larger than it appears

Alcock's central premise is that South Africa's informal economy is materially larger than is commonly assumed. While informal businesses are typically small and fragmented, their combined scale is meaningful. This view is supported by external data. A 2024 FinScope survey estimates that South Africa has approximately 3,027,298 micro, small and medium enterprises (MSMEs), generating R5.29 trillion in annual turnover. Of this, the informal economy accounts for R2.3 trillion in turnover across just under 2.2 million informal businesses.

In an April 2025 article published by News24, Gerrie Fourie noted that around 72% of South Africa's roughly three million SMEs operate informally, largely within the township economy. This supports Alcock's assertion that informal enterprise is not marginal, but a core part of economic activity.

Informal does not mean inactive

A recurring theme in the book is that the absence of formal records does not imply the absence of earnings. Many informal business owners operate in cash or semi-cash systems, rely on personal bank accounts, and transact outside standard reporting frameworks.



Alcock raises a practical question: does the lack of a written record mean these businesses are a mirage? The book suggests the opposite. These enterprises generate income, employ people, and supply goods and services where formal providers are often absent or unaffordable.

This has implications for how unemployment is understood. In the same News24 article, Fourie suggested that South Africa's official unemployment rate of 31.9% in Q4 2024 may be overstated because it does not fully capture informal entrepreneurial activity. While this does not negate labour market weakness, it highlights the limitations of relying on formal employment metrics alone.

Consumption patterns and local demand

The relevance of the informal economy is also visible in consumer behaviour. Informal and township-based businesses serve as both suppliers and customers within the broader economy.

This is reflected in data from Vukile Property Fund. In its most recent financial year-end report, Vukile noted a 13.2% increase in trading densities at township shopping centres, compared to 7.2% in rural centres and 4.5% in urban malls. The company described this as evidence that South African consumers are holding up better than expected in a difficult economic environment.

While listed companies operate in the formal economy, their performance is partly supported by spending patterns rooted in informal income streams and township-based commerce.

Taxation, formality and unintended consequences

KasiNomics Unleashed also addresses the tension between formalisation and sustainability. Alcock cautions that pushing informal businesses too quickly into full regulatory and tax compliance can be counterproductive, particularly where margins are thin and operating conditions are unstable.

The book does not argue against taxation, but suggests that sequencing matters. Growth, stability and access to infrastructure may need to precede formal compliance. Without this, regulation risks reducing participation rather than broadening the tax base over time.

This theme extends to social policy. Alcock notes that many social grant recipients supplement their income through small-scale entrepreneurial activity. However, the threat of losing grant eligibility can discourage

transparency and limit the development of secondary income streams.

Banking, visibility and data

A further focus of the book is financial inclusion. Alcock argues that many informal businesses are not unbanked, but personally-banked. Business transactions often flow through personal accounts because available products are not designed for informal operators.

This observation aligns with industry experience. When Alcock was briefed to assist Capitec in developing a business banking offering for informal enterprises, his starting point was that the sector already participates in the banking system—just not in a way that is formally recognised.

Improving visibility of informal transactions, even without immediate formalisation, could contribute to better data, improved access to credit, and a clearer picture of economic activity.

A dual-purpose book

KasiNomics Unleashed operates on two levels. It is a practical examination of informal business opportunities, risks and operating realities. At the same time, it documents how individuals and households adapt economically in an environment of limited formal employment.

The book does not suggest that the informal economy replaces the formal sector, nor that informality is an ideal outcome. Rather, it presents informal enterprise as a response to economic conditions, and one that plays a meaningful role in supporting consumption, income generation and resilience. It does not ask us to choose between these two. It asks us to see both.

BlueAlpha Investment Offering

Our long term track record demonstrates our ability to create wealth for our investors.

Our Domestic Equity Performance – BlueAlpha BCI Equity

	1 Year	3 Years (annualised)	5 Years (annualised)	Since Incept. (July 2014 annualised)
BlueAlpha Return	22.6%	16.4%	13.4%	9.1%
SA Equity – General Sector Average	28.3%	16.4%	15.5%	8.5%
Relative Performance	-5.7%	0%	-2.1%	0.6%

* A Class, Net of Fees

** ASISA Category Average – SA Equity – General

Source: Fund Focus (Iress),
Bloomberg

With an experienced investment team which is recognised for outstanding investment performance in various fund classifications, we are able to offer both institutional and retail investors diverse products to meet their investment objectives.

For our **institutional investors** we currently manage South African focused equity and balanced mandates as well as a global equity product.

Our **retail** and **IFA investors** have the same access to the BlueAlpha investment process via our BlueAlpha managed unit trusts:

BlueAlpha BCI Equity Fund: is our general equity fund, managed with exposure locally and globally. Its benchmark is ASISA Category Average - SA Equity General. The fund aims to provide long-run market out-performance. It has a high risk profile.

BlueAlpha BCI All Seasons Fund: our longest running unit trust, started in 2005 and managed with

a high equity exposure in the SA Flexible Sector, aims to provide investors with consistent long term capital growth.

BlueAlpha BCI Global Equity Fund: our global equity fund provides investors with offshore equity exposure. The fund invests in developed markets with a focus on quality growth companies with a large market cap. For further details, see page 1.

BlueAlpha BCI Balanced Fund: this fund aims to achieve high capital growth through maximizing exposure to both local and global equity, as well as through sizable exposure to property. It is managed to comply with Regulation 28 and is therefore appropriate for retirement products. The fund has a medium risk profile.

Invest with us

To find out more about our funds or invest with us please contact us on: 021 409 7100 or email: info@bluealphafunds.com

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