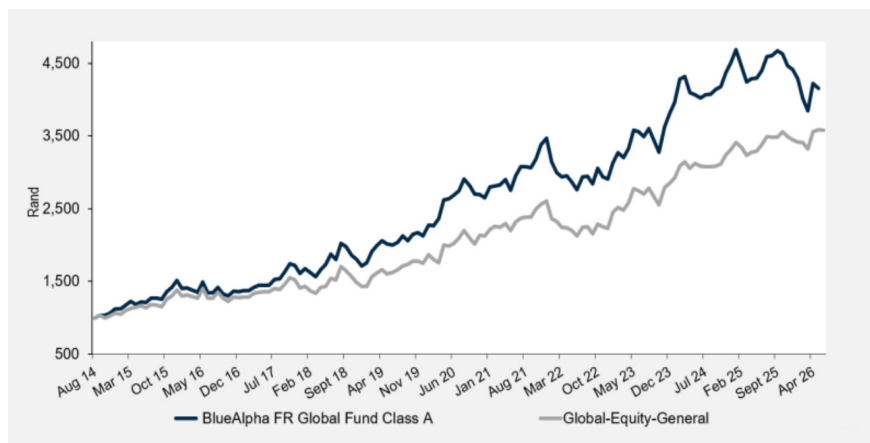


BlueAlpha FR Global Equity Fund

Our Global Equity Performance



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

Source: Fund Focus (Iress),
Bloomberg

In this issue

Investment Focus

AI – Boom or Bubble? Examines whether the current surge in artificial intelligence investment signals a lasting technological boom or an emerging-market bubble. The article weighs concerns around hyperscaler capex, debt-funded infrastructure build-outs, market concentration, and valuation risk against the stronger fundamentals, profitability, and evidence of early adoption supporting today's leading AI companies.

Looking back

MSCI's Evolution and History: MSCI's story is more than the history of an index provider — it is the evolution of a business that has become embedded in the plumbing of global investing. This article explains how MSCI built a durable competitive position through benchmark adoption, recurring licensing revenues, data scale, and high client switching costs. For anyone interested in quality businesses, financial infrastructure, or the long-term shift toward data-driven investing, MSCI offers a compelling case study in how a company can turn market standards into a powerful economic moat.

Chart Focus

Big Tech continues to lead Global Markets: Big Tech's market leadership is often framed as an AI story, but the full picture is broader and more durable. This article explores how enterprise technology spending, cloud infrastructure, semiconductors and data-driven innovation continue to reshape U.S. equity markets, while also highlighting the concentration risks investors should not ignore.

Book Review

Robert Haugen's The New Finance: Robert Haugen's *The New Finance* challenges one of investing's most accepted ideas: that markets are efficient and higher risk reliably leads to higher returns. This article explores why markets often misprice risk, why low-volatility and high-quality companies can be overlooked, and why disciplined investors may benefit by focusing on valuation, fundamentals, and long-term cash flow rather than market excitement.

Investment Objective

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

Our Global Equity Track Record

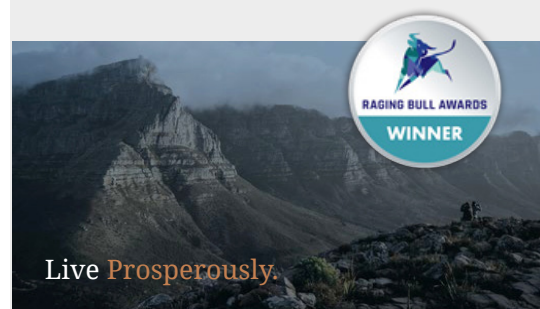
Performance reported in ZAR	1 Year	3 Years (annualised)	5 Years (annualised)	Since Incept. (Sept 2014 - annualised)
BlueAlpha Return*	-6.7%	4.9%	6.8%	12.7%
Sector Average	5.8%	9.6%	9.7%	11.3%
Relative Performance	-12.5%	-4.7%	-2.9%	1.4%

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



Looking Back: MSCI's Evolution and History

MSCI has transformed from an international benchmark provider into a vital infrastructure business for the global investment industry. Its competitive advantage is derived from factors such as benchmark adoption, data scale, recurring licensing revenues, and strong client dependency.

As a foundation, MSCI—Morgan Stanley Capital International—creates market indexes that enable investors to benchmark their performance and structure their portfolios. The company identified an underdeveloped segment of global investing and established a benchmark franchise that became deeply integrated into institutional portfolio construction. MSCI's strengths lie in its benchmark entrenchment, data infrastructure, strategic acquisitions, and the high switching costs for clients.

1960s-1970s

In 1968, Capital International (CI) launched a series of global equity indexes that later became the foundation for MSCI. These indexes were created to assist institutional investors in benchmarking their international performance, accurately allocating capital, and comparing exposure.

By establishing common performance benchmarks ahead of many competitors, Capital International gained significant network effects: the more investors adopted its indexes, the more valuable they became as industry standards. This adoption gradually spread across pension funds, institutional investors, and global asset managers, demonstrating that standardised indexes filled a crucial gap in international investing.



This period established MSCI as a leading provider of standardised global equity benchmarks, at a time when institutional investors lacked reliable tools for comparing international markets.

1980s-1990s

The 1980s marked a significant transformation for Capital International (CI), as it evolved from being a benchmark provider to an emerging leader in the global indexing industry. In 1986, Morgan Stanley licensed and co-developed CI's indexing operations, rebranding the company with their name to create what we now know as MSCI (Morgan Stanley Capital International). Morgan Stanley was more than just a financial backer; they served as a strategic partner, helping to accelerate the adoption of indexes on a global scale.

In 1988, MSCI launched its first major product, the Emerging Markets Index, which covered 10 developing

markets. This was quickly followed by the All Country World Index, which combined developed and emerging markets into a single benchmark. These innovations positioned MSCI as a leader in global indexing. Rather than competing directly with established firms such as FTSE and S&P, MSCI focused on an underserved segment, carving out a durable, defensible niche.

Throughout the 1990s, MSCI expanded its offerings to include small-cap and frontier markets, targeting various sectors, industries, and investment styles. This made MSCI's indexes indispensable for asset managers seeking precise global exposure.

By leveraging Morgan Stanley's distribution strength and its early focus on emerging markets, MSCI developed a differentiated benchmark franchise that became challenging for global asset managers to replace. This strategic shift trans-

formed MSCI from merely an index publisher to a benchmark standard-setter, especially in areas where institutional investors required global and emerging market exposure.

2000 – 2010s

The 2000s were the start of MSCI's acquisition plans. In 2004, MSCI acquired Barra, adding industry-leading portfolio risk modelling and performance analytics through Barra's factor-based risk models.

In 2007, MSCI launched its IPO, allowing it to gradually become an independent company and explore opportunities beyond its core benchmark and index-licensing business. The independence created allowed MSCI to address any conflict-of-interest concerns, strengthening its neutrality and putting a strategic focus on the market and on any acquisitions it would make in the coming years.

This period saw MSCI accelerate its acquisition strategy to broaden its capabilities beyond indexing and strengthen its position as a multi-asset investment decision-support platform. These acquisitions expanded its capabilities in sustainability and climate data, multi-asset risk analysis and expanded its presence in fixed income and private markets.

Current

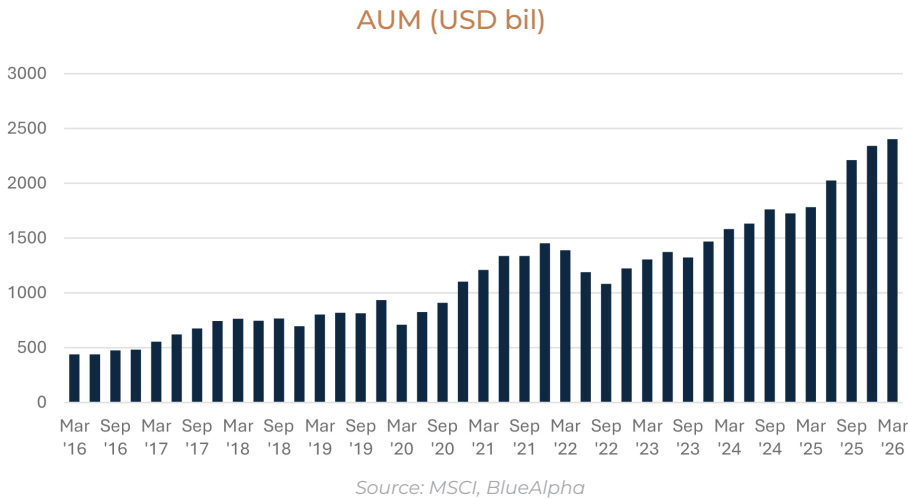
Today, MSCI is a leading provider of investment decision-support tools and solutions for the global investment community. MSCI provides investors with data, analytics, and benchmarking tools that are utilised throughout the investment process. Investors leverage MSCI's research-driven and technology-enabled solutions to gain insights and enhance transparency in their investments.

MSCI serves approximately 7,100 clients across more than 100 countries. Its client base includes asset owners, asset managers, financial interme-

diaries, wealth managers, real estate professionals, and corporations. Notably, BlackRock is MSCI's largest client, primarily through index-linked ETFs and non-ETF products. This client concentration is an important factor to monitor, even with MSCI's extensive global client portfolio.

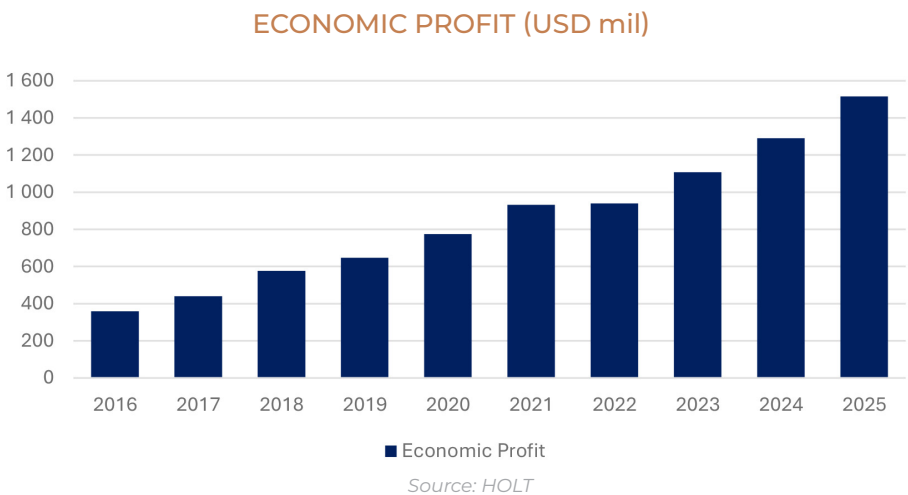
Indexing remains a cornerstone of MSCI's business model and has contributed to the growth of many of its other offerings.

Below are the Assets Under Management linked to MSCI indexes over the past 10 years.



The AUM has grown by a Cumulative Annual Growth Rate (CAGR) of 18.6% over the past 10 years, 7.1% over the past 5 years and 5.4% over the last 3 years. This demonstrates the continued expansion of MSCI-linked assets. While asset growth has moderated in recent years as global equity markets normalised, the long-term trend continues to demonstrate the strength of MSCI's benchmark franchise.

The HOLT data supports the argument that MSCI's business model benefits from recurring revenue, strong operating leverage, and high returns on capital, which are consistent with an infrastructure-like data and analytics business.

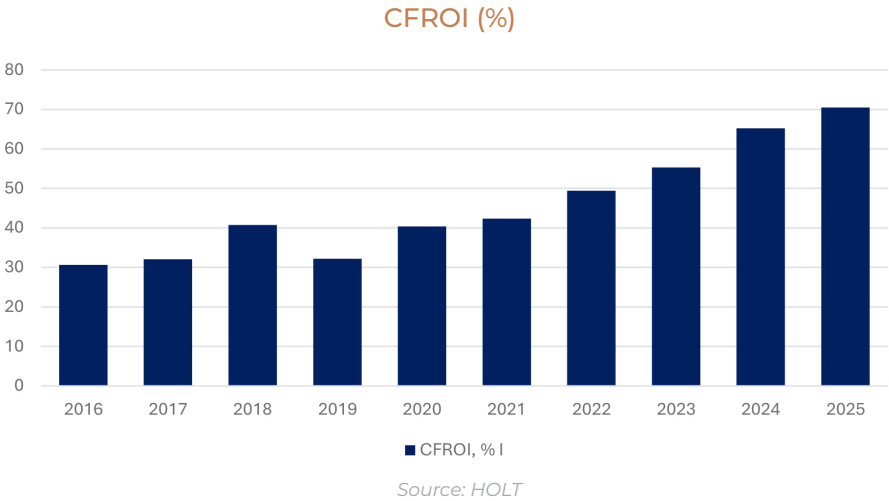


Rising economic profit reflects MSCI's ability to grow earnings without requiring significant incremental capital investment.

MSCI's competitive position remains strong, but the business does carry certain risks. A significant portion of the company's revenue is indirectly linked to a relatively concentrated group of large asset managers—most notably BlackRock—whose index-tracking products generate substantial licensing income. Although switching costs for clients remain high, increasing competition from providers such as FTSE Russell, S&P Dow Jones Indices, and Bloomberg could pressure pricing and future market share gains.

Ongoing regulatory scrutiny also poses risks, particularly regarding index methodology, ESG classifications, and benchmark governance, as policymakers seek greater transparency and standardisation across financial markets. Moreover, while MSCI has successfully diversified into areas such as analytics, sustainability, and private-market data, any prolonged slowdown in global equity markets or in the growth of ETF assets could slow the increase of index-linked assets under management, which is a vital driver of long-term revenue growth.

MSCI's proprietary index data, strong client relationships, and high switching costs position it well to benefit from the growth of quantitative investing and AI-powered financial tools, which are becoming increasingly important in financial markets. The company's strategic expansion into analytics and sustainability has further strengthened its position in this new era. As indexing extends across various asset classes and strategy types, demand has not only increased for benchmarks but also for complementary infrastructure,



Persistently high CFROI illustrates the asset-light nature of MSCI's business model and the durability of its competitive advantages.



such as risk tools, sustainability data, and portfolio insights. This alignment uniquely positions MSCI to meet those evolving needs.

Conclusion

MSCI's history demonstrates a consistent ability to identify structural shifts in global investment markets and build the data, benchmark and analytics infrastructure required to support them.

Having "MSCI" in a fund's name signifies consistency, transparency, and institutional acceptance, particularly for global or sustainability-focused products. It has become a

symbol of quality throughout the entire value chain, from fulfilling regulatory and mandate requirements to providing reassurance to individual investors selecting an ETF from a trusted name.

The strength of MSCI lies in the fact that clients do not just use its products; they are integrated into investment mandates, portfolio construction, reporting processes, risk management systems, and product design. This positions MSCI not merely as a data provider, but as an essential piece of global investment-market infrastructure.

Chart Focus:

Big Tech Continues to Lead Global Markets

Technology: Beyond the AI Story

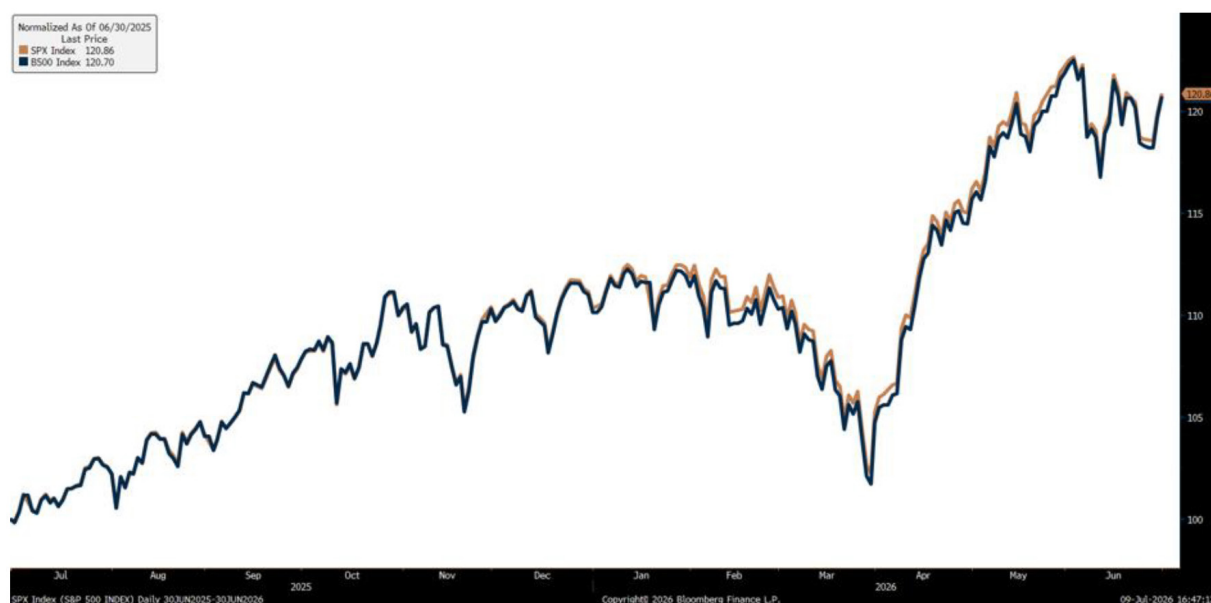
Technology has been one of the strongest-performing sectors in U.S. large-cap equity markets over the past two years. While much of this performance has been driven by investor enthusiasm surrounding artificial intelligence (AI), the long-term investment case extends beyond AI. It is supported by continued enterprise technology spending, increasing digitalisation across industries, and the growing importance of cloud computing, semiconductors and data infrastructure.

Technology spending is generally regarded as a strategic investment rather than a discretionary expense because it helps businesses improve efficiency, remain competitive and support future growth. As companies continue to digitise their operations, investment in software, cloud services and digital infrastructure is becoming essential rather than optional. This is reflected in corporate capital allocation decisions. This can also be seen in how companies allocate capital. During Microsoft's FY2025 fourth-quarter earnings call, Chief Executive Officer Satya Nadella stated: "This is how we will continue to think and make investments with decades-long arcs, while making progress every quarter." Referring to Microsoft's AI investments, he further noted that the company's focus "remains on investing in AI platform and product innovation that delivers value and opportunity to our customers." These comments illustrate that technology investment is viewed as a long-term strategic priority rather than a short-term discretionary cost.

Benchmark Selection

The S&P 500 Index (SPX) is used throughout this article as the primary benchmark for U.S. large-cap equity market performance. However, our Bloomberg access does not provide detailed sector and constituent weights for the SPX. For this reason, the Bloomberg 500 Index (B500) is used as a proxy for analysing sector and constituent weights. Like the SPX, the B500 is a float market-cap weighted index comprising the 500 largest U.S. companies by market capitalisation.

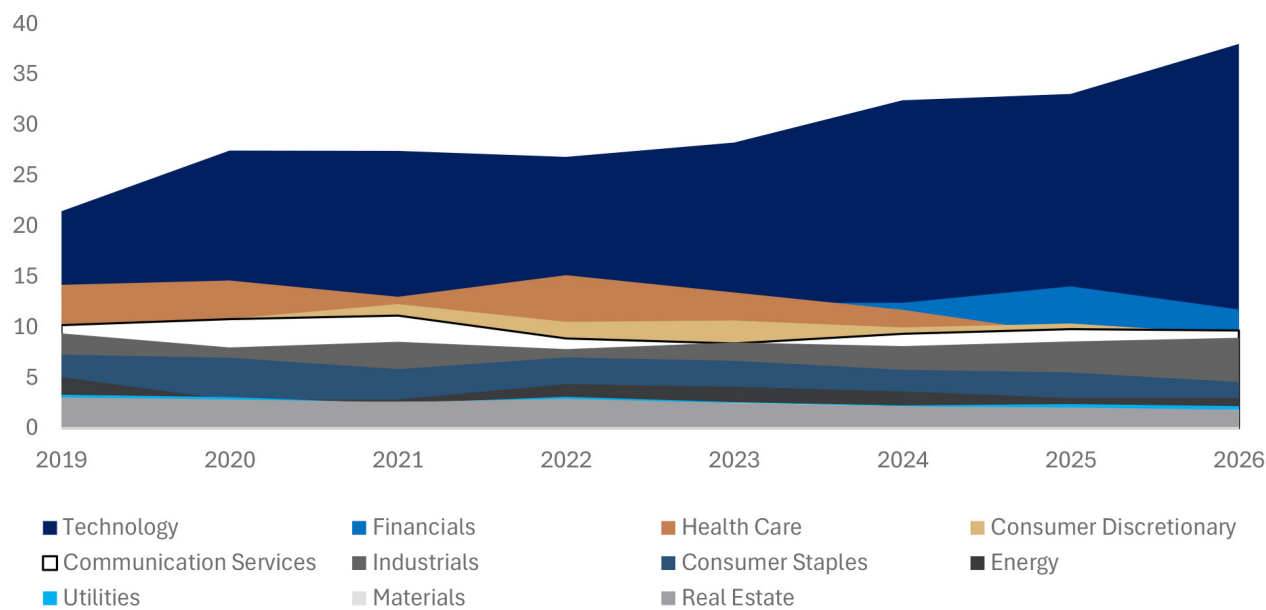
FIGURE 1: NORMALISED PERFORMANCE – SPX VS BLOOMBERG 500 (B500)



Source: Bloomberg

Figure 1 compares the normalised performance of the SPX and the B500 over the past year. The two indices have moved closely together throughout the period, showing that the B500 is a reasonable proxy for the SPX.

FIGURE 2: SPX GICS SECTOR WEIGHTS (2019–2026)



Source: Bloomberg

Figure 2 shows the GICS sector weights of the B500 over the past eight years. Information Technology has remained the largest sector and has increased from about 21% in 2019 to 38% in 2026, approximately 17% increase in the sector weight.

The launch of ChatGPT by OpenAI in late 2022 marked a major shift, bringing AI into the spotlight and increasing investor interest in technology companies. Communication Services has also remained an important sector, representing around 10% of the index. Together, Information Technology and Communication Services account for almost half of the B500, highlighting the important role technology-related companies play in the U.S. equity market.

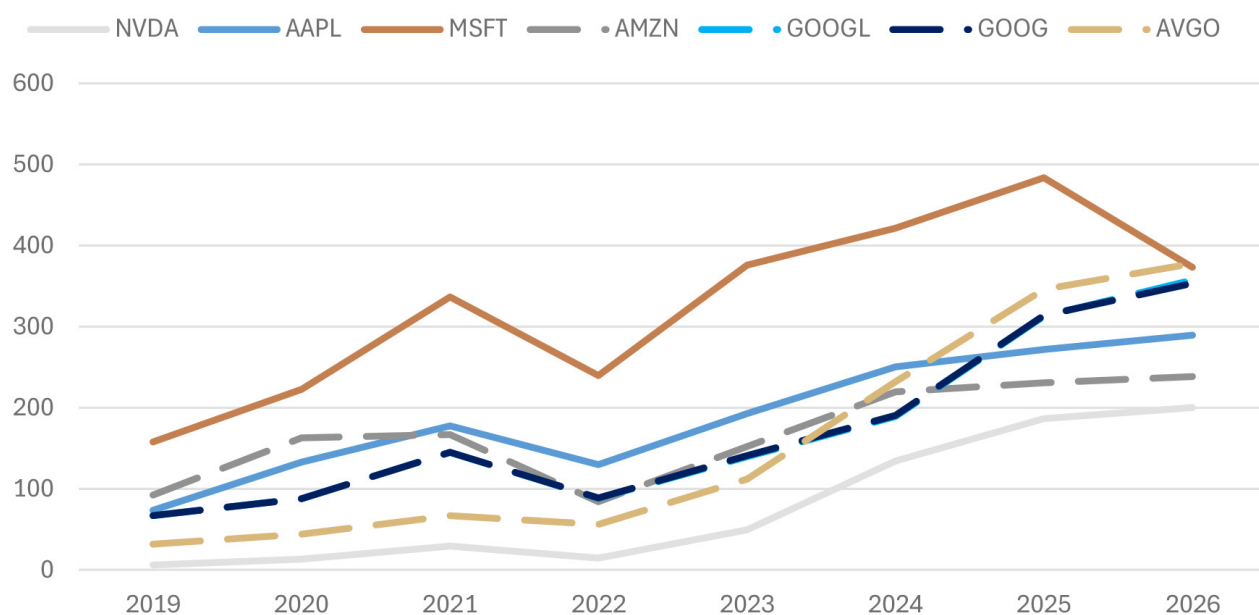
Market Leadership and Concentration

TABLE 1: TOP HOLDINGS OF THE BLOOMBERG 500 INDEX

TOP HOLDINGS	
NVIDIA Corp	7%
Apple Inc	6%
Microsoft Corp	4%
Amazon.com Inc	4%
Alphabet Inc-cl A	3%
Broadcom Inc	3%
Alphabet Inc-cl C	3%

Source: Bloomberg

FIGURE 3: STOCK PRICES OF THE TOP 7 HOLDINGS



Source: Bloomberg

Table 1 and Figure 3 shows the largest technology holdings in the B500. More broadly, the Magnificent Seven account for approximately one-third of the S&P 500, demonstrating the significant influence a small number of technology companies have on market performance.

Although this concentration increases valuation and company-specific risks, these companies continue to strengthen their market positions through ongoing investment and innovation. Microsoft, Alphabet and Amazon have all identified AI infrastructure and data centre expansion as key investment priorities in their latest annual reports and earnings calls. Their continued investment reflects a long-term focus on meeting growing demand for AI and cloud services while maintaining their competitive positions.

Investment Conclusion

Technology remains one of the most influential sectors in U.S. equity markets. While AI has been an important catalyst for recent market performance, the long-term investment case is supported by broader structural trends, including continued enterprise technology spending, digitalisation and investment in cloud computing, semiconductors and data infrastructure.

The increasing weight of technology within the B500 and the continued investment by the largest technology companies highlight the sector's growing importance in the market. At the same time, investors should remain mindful of elevated valuations and the concentration of returns within a small number of companies when assessing future investment opportunities.

Investment Focus: AI – Boom or Bubble?

In the late 1990s, anything internet-related was all the rage, fuelling a period of unbridled speculation in which hype far outpaced fundamentals. Technology stocks surged to unprecedented valuations, despite many of these companies still having unproven business models and not yet turning a profit. By early 2000, as valuations looked increasingly untenable and the Federal Reserve raised interest rates, enthusiasm turned to disillusionment, culminating in the bursting of the dot-com bubble in March 2000.

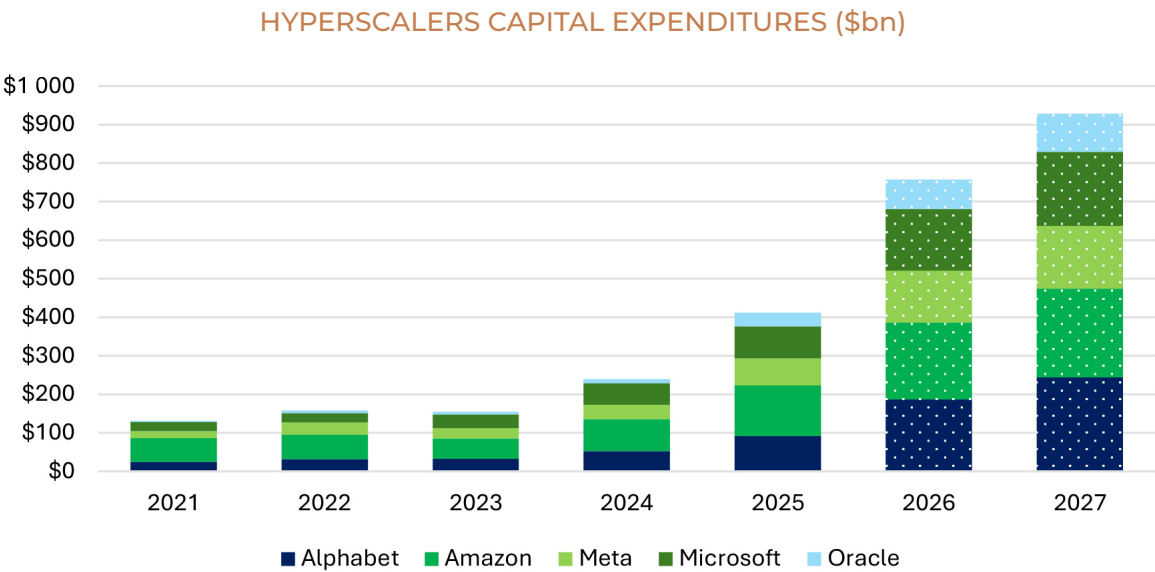
A growing chorus of investors sees echoes of that period amid the massive investments in artificial intelligence (AI), rising valuations and debt issuance, and the increasing circularity of the AI ecosystem. This growing investor angst was reflected in Bank of America's June 2026 Global Fund Manager Survey, where 28% of respondents identified an AI bubble as the biggest tail risk facing markets, up from just 5% in April.

The five largest hyperscalers (Alphabet, Amazon, Meta, Microsoft, and Oracle) are locked in an arms race with one another and are on track to spend roughly as much on capital expenditures (capex) in 2026 alone as they have spent cumulatively since the launch of ChatGPT in November 2022. Returns from these investments, however,

remain modest relative to the capital being deployed, prompting investors to ask whether AI adoption and monetisation will eventually justify this colossal spend, or whether we are in a bubble that is about to deflate.

Mounting Bubble Fears

The most striking feature of the current AI investment cycle is the sheer scale and pace of the investments being made. The five largest hyperscalers are set to spend around \$750 billion in 2026 – more than five times what they spent five years ago. This has resulted in these companies becoming significantly more capital-intensive, marking a shift away from their traditional asset-light model. Analysts at JP Morgan expect a staggering \$5.50 trillion in AI-related capex through 2030, up from their \$5.10 trillion estimate in November last year.



Source: Bloomberg

Despite these already hefty investments, the AI investment cycle is showing no signs of slowing, with the hyperscalers consistently revising their respective capex budgets higher – the collective 12-month forward consensus capex estimate has gone from less than \$300 billion in early 2025 to over \$800 billion. Management teams have described their spending as demand-driven rather than speculative, citing unprecedented demand for AI compute and a lack of physical capacity to meet it.

Reinforcing this investment cycle is the perceived risk that underinvesting may prove too costly for these hyperscalers. Both Meta's CEO Mark Zuckerberg and Alphabet's CEO Sundar Pichai have said that the risk of underinvesting is greater than the risk of overinvesting. While the optimal outcome at the aggregate level would arguably be for all hyperscalers to moderate their spending, each hyperscaler risks permanently falling behind in the AI race if it cuts back while its peers continue to invest aggressively.

If history is any guide, then hyperscalers may end up overinvesting. Past investment booms, from railways to fibre-optic networks for the internet, resembled genuine technological breakthroughs, but the initial investments made far exceeded what was ultimately needed. A revolutionary technology does not automatically give rise to a blank cheque. AI could similarly prove to be a revolutionary technology while still producing poor investment outcomes for the companies funding the build-out.

Another potential risk for investors is the increased reliance on debt to finance the AI build-out, as the growth in capex is increasingly outpacing the growth in operating cash flows. Hyperscalers have historically self-funded a significant portion of these investments through the cash flows generated by their core operations. That started to change in 2025, with the five largest hyperscalers collectively issuing \$121 billion in US corporate bonds, compared to an average of only \$28 billion per year between 2020 and 2024. More than \$2.10 trillion in high-grade bonds related to the AI build-out is likely to be issued over the next five years, according to JP Morgan.

On top of this is the rising circularity of the AI ecosystem, through the partnerships between the hyperscalers, AI model developers (OpenAI, Anthropic, xAI) and chip companies (Nvidia, Broadcom, AMD). For some investors, these arrangements hark back to the vendor-financing structures that were used to inflate growth during the latter stages of the dot-com bubble. While these circular financing loops may benefit all parties involved when everything is going well, they can also magnify the losses if AI fails to live up to its lofty expectations.

Why this cycle might be different

In the early stages, booms and bubbles closely resemble one another – both are characterised by rising prices,

investor enthusiasm and a compelling narrative. The critical difference between the two only emerges later, with the fundamentals eventually growing into the elevated valuations in a genuine boom, while in a bubble, the magnitude of the investments far exceeds what the fundamentals can ultimately justify.

While the AI build-out is already having an outsized impact on economic growth, AI-driven productivity gains remain negligible relative to the level of excitement, adding only 10 basis points to global growth at 3.50% per year according to Bank of America. These AI-driven productivity gains can, however, become more pronounced as AI models continue to improve and adoption spreads. Unlike previous general-purpose technologies that boosted workers' productivity levels by providing them with better tools, the Bank for International Settlements believes that "AI could go further by augmenting the production of knowledge itself."

At an individual company level, early evidence suggests that AI is already delivering tangible benefits. AI has helped Meta bolster its core products through "better ranking, better recommendations, [and] better content understanding." Three-quarters of all new code written at Google is now AI-generated and reviewed by its engineers, up from half last fall, while customers who use Walmart's AI shopping assistant, Sparky, have average order values 35% higher than those of non-Sparky customers.

While it remains too early to know exactly what the returns will be, survey-based indicators suggest that corporate AI adoption is moving in the right direction. The Ramp AI Index indicates that more than half of US companies now have a paid AI subscription, up from 40% a year ago. The key question is how AI adoption evolves and whether the resulting productivity and economic benefits can ultimately justify the scale of spending.

Furthermore, many of the leading technology companies bankrolling the AI build-out already have proven business models, robust balance sheets and strong cash generation. This provides them with a stronger fundamental foundation than the companies at the centre of the dot-com bubble, which tended to have unproven business models, little to no profits and rapid cash burn. To put this quality differential into perspective, HOLT's economic profit for US technology is approximately ten times what it was in 2000, versus 4.50 times for the rest of the market.

Are valuations in bubble territory?

Since the AI boom kicked off with the emergence of ChatGPT in late 2022, AI companies have been responsible for a disproportionate share of the gains in US markets. These outsized gains in a select few companies have resulted in extreme levels of market concentration. The 'AI Big 10'

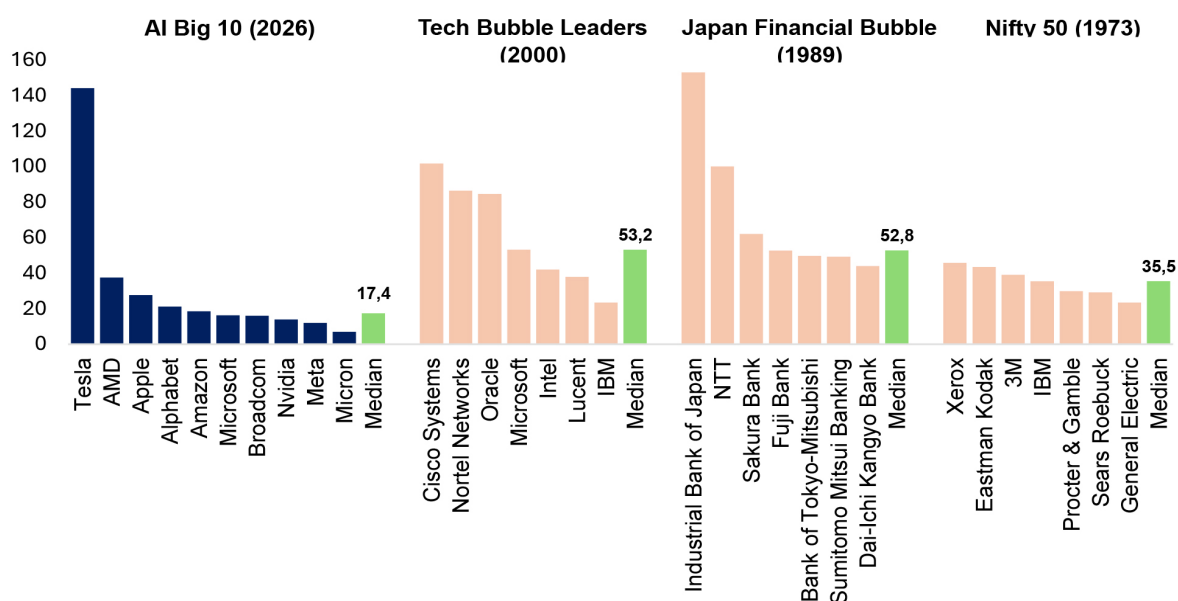
('Magnificent 7' plus Broadcom, Micron and AMD) now account for 40% of the S&P 500, nearing concentration levels last seen during the dot-com bubble.

From a valuation perspective, there is no denying that the broader market is expensive at current levels. At an index level, the S&P 500 cyclically adjusted price-to-earnings (CAPE) ratio, which uses a rolling 10-year window of inflation-adjusted earnings to filter out short-term noise, is elevated at 40.70x. This compares to its 30-year average of 28.80x and dot-com peak of 44.20x. Looking at it from a slightly different angle, HOLT's economic P/E for

US technology stands at 33.30x. While high relative to its history, it remains far below its dot-com peak of over 60x.

Among the companies at the centre of the AI boom, valuations appear more palatable than in past bubbles. The 'AI Big 10' companies are currently trading at a noticeable discount on a 24-month forward P/E basis relative to the leading companies in the late 1990s, except for Tesla, as illustrated in the chart below. The median 24-month forward P/E ratio of the 'AI Big 10' companies is equivalent to around a third of what it was for the largest seven companies in the late 1990s.

AI BIG 10'S 24M FWD P/E RELATIVE TO HISTORICAL BUBBLES*



Source: Goldman Sachs, Bloomberg

*LTM P/E from 02/01/1973 for Nifty 50, LTM P/E from 27/12/1989 for Japan Financial Bubble, 24m fwd P/E from 24/03/2000 for Tech Bubble and 24m fwd P/E from 30/06/2026 for AI Big 10.

Where to from here?

While AI is likely to be one of the most defining technologies of our time, there remains a real risk that the investments in AI infrastructure follow a familiar historical pattern of transformational technologies attracting capital in excess of what demand can ultimately justify, thereby leading to overcapacity and poor investment outcomes. Both railroads and the internet fundamentally changed the world, but not all companies involved proved to be attractive investments.

The question of whether we are in a bubble is, however, less straightforward this time. Many of the leading AI companies already have well-established business models, robust profitability and strong cash generation, while the underlying demand for AI compute continues to outpace

supply. Moreover, although elevated, these companies are also trading at more reasonable valuations than during the dot-com bubble.

Rather than becoming overly focused on trying to answer the bubble question, which has historically proven notoriously difficult to answer, as bottom-up investors, we are devoting more of our time to identifying high-quality companies across the value chain that are best positioned to benefit from AI and withstand changes in market sentiment. At the same time, we remain focused on avoiding the more volatile and speculative corners of the market that would be most at risk should the current levels of optimism surrounding AI begin to unwind.

Recommended Read: The New Finance - The Case Against Efficient Markets – by Robert A. Haugen

Robert Haugen challenges two central pillars of traditional financial theory, namely the Efficient Market Hypothesis (EMH) and the Capital Asset Pricing Model (CAPM). Drawing on empirical evidence and clear logic, he argues that markets are not fully efficient and that conventional measures of risk often fail to explain real-world investment returns.

The book offers a practical framework for understanding why mispricing persists and how disciplined investors can benefit from recognising structural inefficiencies. Its implications extend across portfolio construction, risk management, and long-term investing.

Market Efficiency Reconsidered

Haugen begins by questioning the assumption that markets quickly and accurately price securities based on all available information. Traditional finance theory implies that excess returns should be difficult to achieve consistently because prices adjust rapidly to new information.

In contrast, Haugen presents evidence that markets often exhibit predictable pricing errors, driven by behavioural biases and institutional constraints. These inefficiencies are not purely random; they can persist over time and create opportunities for disciplined investors. The key implication is that markets are not perfectly rational systems. Instead, they reflect human behaviour and are therefore vulnerable to emotion, overreaction, and misjudgement.

Risk and Return: A Flawed Relationship

A central argument in the book is Haugen's critique of the traditional risk-return trade-off. CAPM suggests that higher risk, typically measured by volatility or beta, should be rewarded with higher expected returns. Haugen shows that this relationship often breaks down in practice. Low-risk stocks frequently generate returns equal to, or better than, high-risk stocks, thereby directly challenging established theory.

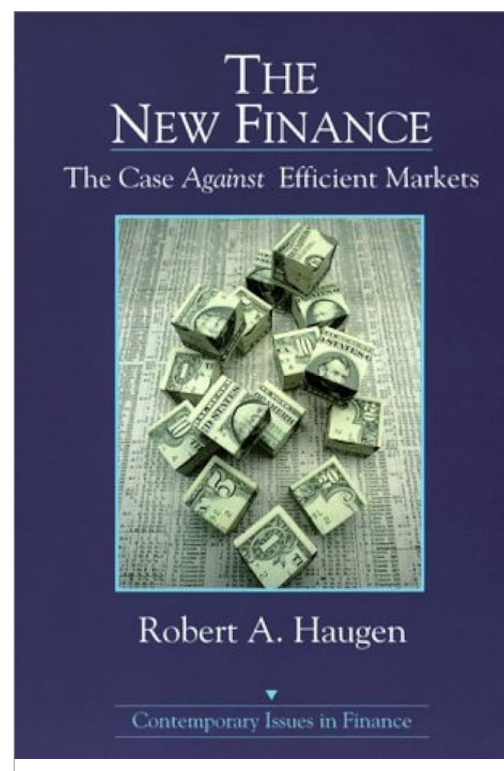
This leads to one of the book's most important conclusions – risk as conventionally defined is not necessarily a reliable guide to expected return. Haugen argues that equating volatility with risk can lead investors to misunderstand the true drivers of

return. Risk should instead be assessed through fundamentals, valuation, and cash flow sustainability, rather than price fluctuations alone.

The Low-Volatility Anomaly

One of Haugen's most compelling insights is the low-volatility anomaly, which is the observation that lower-risk stocks can outperform higher-risk stocks over time. He shows that markets often misprice volatility, with high-volatility stocks tending to be overpriced and low-volatility stocks tending to be underpriced.

This pattern reflects investors' preference for "lottery-like" stocks with the potential for large gains. As capital flows toward exciting, high-risk opportunities, more stable and



cash-generative businesses are often overlooked. The result is a persistent valuation imbalance, whereby the exciting, high-risk stocks command premium valuations, while the steady, cash-generative businesses trade at discounts. Over time, this creates an opportunity for investors who prioritise quality and stability over speculation.

Behavioural Drivers of Mispricing

Although Haugen wrote before behavioural finance became mainstream, he identifies several psychological forces that help explain persistent market inefficiencies. Common investor behaviours include the tendency to overreact to short-term news, extrapolate recent trends too far into the future, and chase high-growth stocks.

Institutional pressures reinforce these biases. Benchmarking, career risk, and the need to remain close to consensus can encourage managers to follow the crowd, even when they recognise potential mispricing. Prices reflect both the available information alongside the behaviour of those interpreting it. Together, these behavioural and structural forces help explain why inefficiencies can persist, even in highly competitive markets.

Valuation as the Primary Driver of Returns

Haugen places valuation at the centre of long-term return generation. Rather than relying only on traditional risk measures, investors should focus more on starting valuation levels, cash flow generation and the reinvestment opportunities for the companies in question.

Because sentiment and narrative can drive a wedge between price and intrinsic value, markets frequently misprice companies in ways that valuation-conscious investors can exploit with the core principle being relatively simple: returns are driven by what you pay, not just what you own.

Portfolio Construction and Practical Implications

The insights in *The New Finance* have clear implications for portfolio management. Investors should seek to allocate capital toward high-quality and low-volatility companies and avoid overpaying for high-growth or speculative assets, all while focusing on long-term compounding rather than short-term fluctuations.

More broadly, Haugen's work supports an investment framework built around stability, cash flow durability, and disciplined capital allocation. These principles remain highly relevant to modern factor investing and quality-focused portfolio strategies.

Why It Matters for Investors Today

Haugen's arguments remain especially relevant in today's market environment, where capital often moves quickly toward the most exciting narratives such as artificial intelligence and momentum-driven themes. These trends can create powerful opportunities, but they can also push valuations well beyond what fundamentals can ultimately justify.

For investors, the practical lesson is not to reject innovation or growth, but to remain disciplined about price, quality, and risk. Haugen's work is a reminder that the market regularly confuses excitement with opportunity and volatility with risk. A business can be popular, fast-growing, and widely owned, yet still be a poor investment if too much optimism is already reflected in its price.

His framework is particularly useful for investors focused on long-term compounding because it encourages a balance between fundamental quality and valuation discipline. It supports the idea that attractive returns are often found in companies with durable cash flows, resilient business models, and underappreciated stability, rather than in the most fashionable areas of the market.

In practical terms, Haugen's message encourages investors to constantly question whether market prices fully reflect fundamentals or simply reflect prevailing sentiment, and to look for quality businesses that are overlooked because they appear steady rather than exciting, all while remaining valuation-sensitive, especially when popular themes become crowded.

Conclusion

The New Finance challenges deeply embedded assumptions about markets, risk, and return. By showing that traditional models fail to explain observed outcomes, Haugen offers a more realistic lens for understanding how markets actually behave.

The book highlights the importance of behaviour, incentives, valuation, and mispricing in shaping investment outcomes. It also reinforces the need to remain sceptical of accepted frameworks and to question conventional definitions of risk. Overall, Haugen's message is clear: long-term value creation is less about accepting more volatility and more about identifying where the market misunderstands risk, return, and intrinsic value.

BlueAlpha Investment Offering

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

Our Domestic Equity Performance – BlueAlpha FR Equity

	1 Year	3 Years (annualised)	5 Years (annualised)	Since Incept. (July 2014 annualised)
BlueAlpha Return	8.3%	12.1%	9.7%	8.9%
SA Equity – General Sector Average	15.1%	14.5%	12.4%	8.1%
Relative Performance	-6.8%	-2.4%	-2.7%	0.8%

* 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 FR 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 FR 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 FR 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 FR 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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