Quarterly Report

Counterpoint SCI Balanced Plus Fund

Quarter ending 31 March 2021

This Fund is suitable for an investor seeking long term capital growth with a medium risk tolerance. The Fund is Regulation 28 compliant and has a maximum effective equity exposure limit of 75%. The recommended investment horizon is seven years or more.

Performance Table

Annualised Performance	Fund	Benchmark
3 Months	3.2%	7.4%
1 Year	11.7%	35.2%
3 Years	5.0%	5.7%
5 Years	4.1%	6.4%
Since Inception (November 2012)	6.5%	8.8%

Fund Details	
Benchmark	*ASISA Category Average*
ASISA Category	*South African Multi Asset High Equity*
Portfolio Managers	*Andrew Dowse* *Raymond Shapiro*

Performance Review

The rate of economic recovery gathered momentum during the first quarter of 2021. The number of people vaccinated is growing, and at an increasing rate, which is driving hopes that we might be able to put the Covid-19 pandemic behind us soon. This, together with stimulus programmes recently having been signed into law in Europe and the US gave reason for risk assets to move higher. Equity markets broadly pushed higher, rising strongly in the US, Europe and Japan with a steady performance in the UK. The MSCI World Net Total Return Index (USD) rose 5% during the quarter with the MSCI Emerging Markets Net Total Return Index (USD) rising 2%. The FTSE/JSE All Share Total Return Index however did outperform its emerging market peers, gaining 13%.

Currency markets were stable over the period, noting a slightly strong Pound Sterling but weaker Euro and Japanese Yen. However, during February and March bond markets fretted somewhat about the idea that inflationary pressures are building, particularly in developed markets. Stimulus cheques are en route to US citizens which would likely add further to these inflationary pressures and the bond market illustrated its worry that this would spill-over. Bond yields moved up sharply in February and March, seeing long bond (10-year and 30-year) rates rising in a short space of time. The US 10-year government bond yield rose 34 basis points in February and a further 34 basis points in March, taking the total change in yield for the quarter up 83 basis points. While ordinarily this would be immaterial, given that the yield on the bond at the beginning of the year was just 0.91%, this was a nearly doubling of the yield and interest burden on borrowers linked to this lending rate. Duration exaggerated these effects and impacted heavily on returns in bond markets. The US aggregate bond market fell over 3% during the quarter. Taking their cues from the US, other markets around the world (including emerging markets, albeit to a lesser extent) felt similar turmoil in their bond markets, falling moderately during the quarter.

COUNTERPOINT ASSET MANAGEMENT

Counterpoint SCI Balanced Plus Fund

Quarter ending 31 March 2021

Top 10 Holdings (%)	
Counterpoint Global Equity	13.0
Counterpoint Global Owner Managed Flexible Fund	11.8
R2030 8.00% 31012030	10.7
British American Tobacco	5.8
Naspers	5.0
Anglo American	3.1
AVI Limited	2.6
SPAR Group	2.6
R2023 7.75% 280223	2.5
FirstRand 5.5% 071223	2.4
Total	**59.4**

Asset Allocation (%)	
SA Equity	41.2
SA Commodities	1.1
SA Property	0.6
SA Pref Share	0.5
SA Bonds	27.0
SA Cash	2.5
Global Equity	18.6
Global Property	2.5
Global Cash	6.0
Total	**100.0**

Commodity markets continued the strong run they started late in 2020. Materials as a sector delivered returns of approximately 18% with the large-diversified miners (Anglo American, BHP and Glencore) rising between 15% and 25%. This was driven by their exposure to generally higher spot prices higher in base commodities like copper, iron ore and crude oil. However, there was some divergence within this sector. Gold stocks declined between 5% and 15% with the spot price of gold falling 10% in US dollars, while platinum stocks soared between 40% and 50% from rising platinum group metal (PGM) prices. Platinum rose 11% and palladium rose 7% but the knock-out performer was seen in rhodium, which rose 57%. Rhodium is a key metal used in catalytic converters in conjunction with either platinum or palladium but because of its scarcity, demand has outstripped supply. This is unlikely to change anytime soon as the world moves progressively to further regulate emissions and protect the climate requiring vehicle manufacturers and other emitters to incorporate more platinum, palladium and rhodium in their catalytic converters.

Other noteworthy sectors during the quarter included technology, with Naspers rising 17%, and the consumer discretionary retailer, Richemont, which climbed 8.6% in anticipation of a rebound in Chinese, European and US consumers eager to reward themselves with luxury goods following long periods of stressful lock-downs. MTN also enjoyed some of the spoils of higher crude prices with consumers in the oil rich country of Nigeria feel more inclined to spend some of their discretionary income on data and communicating.

The Fund returned 3.2% in the first three months, lagging its benchmark peer group which rose 7.4%. On a stock level, the main positive contributors for the fund were Anglo American, British American Tobacco, Remgro, Reinet S.C.A. and Absa while the detractors were Harmony Gold, Prosus N.V., Sibanye Stillwater, AngloGold Ashanti and Standard Bank. The relative underweight in SA Equity, and particularly diversified miners and Naspers, dragged on performance, however this was offset by relatively better performance in the offshore allocation. The Counterpoint Global Equity and Counterpoint Global Owner Managed Funds delivered 9.5% and 11.0% respectively which both exceeded the MSCI World Index. However, despite a higher allocation to offshore that performed well, it was still below the return of the SA equity market and resulted in some opportunity loss. The holding in NewGold ETF also detracted somewhat from performance in the quarter.

Portfolio Actions

The Fund continued to be positioned cautiously with relatively higher levels of cash and gold exposure, given where earnings are currently. That said, fundamentals have begun to improve meaningfully, and earnings are looking more robust. Therefore, the Fund has increased exposure to risk assets on the margin. However, this continues to be done in a measured approach, while waiting for opportunities to allocate greater amounts to risk assets at reasonable prices.

The Fund trimmed exposure to tobacco and gold stocks and upweighted into diversified mining, technology, banks, financial services, food and apparel retail stocks. We believe the market has become ripe for stock pickers and opportunities are, in some cases, less to do with the sectors we are exposed to, but more about the stocks we own. In that regard, the businesses we have added to the Fund are the ones we believe are facing the greatest tailwinds. The opportunities available are partly due to lockdowns exposing weaker competitors and granting stronger businesses with opportunities to acquire or gain market share organically. Many of these businesses are also the innovators of their sectors and would likely gain market share in any event, but lockdowns have accelerated this. These include Naspers, Transaction Capital, PSG Konsult, Ninety One and Foschini Group.

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Portfolio Strategy

The Fund objective is to outperform the average fund in the same category over a full market cycle (trough to trough or peak to peak).

The Fund seeks to achieve its objective by applying asset allocation and stock selection views to the current context across domestic and global markets. For the most part, the Fund is unlikely to deviate significantly from prevailing trends. Occasionally, if faced with extreme market conditions, the judgment of the portfolio manager could result in positioning that deviates significantly from that of the average fund.

Current market conditions remain extreme by a number of measures. We observe signs of irrationality in trading prices relative to their intrinsic valuations and a worrying disparity between relative asset class relationships. Easy monetary and fiscal conditions continue to provide a false sense of security and we remain concerned about a variety of tail risks that could lead to a market shock in stocks that exhibit extreme valuations. For this reason, we hold a combination of reasonably priced assets that can provide participation in the liquidity driven rally of equity markets, together with sufficient assets that provide protection if a catalyst causes reason to reprice these extreme securities. Exposure to uncorrelated assets (like bonds and gold) supports the portfolio construction process currently.

Not having exposure to assets that are enjoying the tailwinds of easy money would risk missing an earnings recovery that might not necessitate a negative re-rating. For this reason, we look to allocate a relatively full equity weight and hold it through the cycle. Other asset classes (like bonds, property, gold or cash) that possess the right uncorrelated characteristics for the appropriate time are used to gain protection. Within asset classes, we look for companies that possess valuations that are attractive given the quality attributes of the company, as well as adequate growth opportunities.

In that context, the Fund has the following positioning relative to the average fund in its category:

- An elevated offshore weighting above 25% with an increasing tilt towards growth.
- A significant underweight to the luxury goods sector which is coming off a high earnings base.
- An overweight to SA financials where there is tremendous value and growth opportunities in underappreciated names which are followed less by the broader market.
- An overweight in SA bonds, with a tilt to longer-dated government bonds where an opportunity to roll down the yield curve is present.

The Fund is positioned to benefit from continuing momentum in equities due to its intention to be fully exposed to growth assets through the cycle. However, it also has a large allocation to uncorrelated bond assets that can offer protection in a pull-back. The potential threat of reflation (that prices of goods and services may rise due to excess liquidity and stimulus that has been injected into economies around the world) presents a latent peril to low-yielding developed market bonds. Reflation is where central banks cannot counter rising inflation by raising interest rates due to the size of the debt burden that countries are now carrying, which could risk governments defaulting on their loans. The Fund will not own assets in these developed market bonds until their debt overhangs are reduced substantially which we do not expect to happen anytime in the near term. Similarly, stretched valuations (due to extreme suppression of macroeconomic interest rates rather than due to fundamental growth in earnings streams) are actively being avoided. This may lead to some near-term underperformance if momentum in these stocks continue, however the longer-term outlook is far more encouraging and will likely deliver material outperformance driven by sustained earnings growth purchased at reasonable prices.

Andrew Dowse
Portfolio Manager

Counterpoint SCI Balanced Plus Fund

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