Quarterly Report

Counterpoint SCI Enhanced Income Fund

Quarter ending 31 March 2021

This Fund is suitable for a conservative investor seeking regular income payments or moderate capital growth. The recommended investment horizon is three years or more.

Performance Table

Annualised Performance	Fund	Benchmark
3 Months	0.9%	0.9%
1 Year	5.6%	4.6%
3 Years	6.9%	6.3%
5 Years	7.8%	6.8%
Since Inception (December 2012)	6.9%	6.4%

Fund Details	
Benchmark	*STeFI*
ASISA Category	*South African Multi Asset Income*
Portfolio Managers	*Melville Du Plessis*

Performance Review

The Fund posted a return of 0.9% for the quarter, with the Fund returning 5.6% over the past year, compared to 4.6% for the benchmark – the SteFI (Short Term Fixed Interest) call deposit rate. Since the Fund's inception in 2012, the Fund has delivered 6.9% outperforming the benchmark by 0.5% per year. The Fund's track record demonstrates that it is possible to outperform over various interest rate cycles, amidst both favourable and unfavourable credit market environments.

Market Review

The first quarter of 2021 initially began on a positive note with optimism of large-scale vaccine rollouts and economies continuing to open up. However, subsequent fears of lack of vaccine supplies dampened asset class returns in January, but more clarity and increased vaccine supply emerged during February. Markets also turned their sights on the stimulus package announcement by US President Joe Biden who took office in January. The announced stimulus implied a fiscal response totalling roughly 27% of US GDP. In South Africa, the picture was less optimistic, with a slow start to a vaccine rollout combined with continued lockdown restrictions. This meant that the economy would be starting 2021 on a very weak footing.

The South African Reserve Bank (SARB) kept rates on hold at their first meeting of the year, thus continuing to support the economy, which has been battered by the virus. Local bonds rallied during February on the back of a general rally in risk assets, boosted further by positive developments on a vaccine rollout strategy as well as a loosening of lockdown restrictions in SA. But this was dampened by increases in US interest rates and fears of a tapering, perhaps similar to that witnessed in 2013, causing fears of sustained increases in yields in emerging market countries. The February budget by National Treasury surprised on the positive side, with higher revenue collections expected and smaller deficits, and signalled that the budget would focus on expenditure reduction to reduce the sizeable deficits over the medium term.

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Top 10 Holdings (%)	
R186 12/26 10.5	6.3
ABSA CLN F/R 20062024	4.5
Sasol Financing Limited F/R 12082022	4.3
Momentum Holdings F/R 10122026	2.7
Nedbank F/R 15032022	2.4
BNP Paribas Personal Finance F/R 19112024	2.2
Momentum Holdings 8.9% 180924	2.1
Industrial Dev Corp of SA Ltd F/R 13112023	2.1
Transsec	1.8
ABSA F/R 09022026	1.8
Total	**30.2**

Asset Allocation (%)	
SA Bonds	22.0
SA FRN	73.0
SA Pref Share	1.1
SA Cash	4.0
Total	**100.0**

Towards the end of the quarter, the continued optimism over vaccinations and rollout supported markets, however, global bonds traded weaker as the positive growth picture raised fears of inflation overshooting and thus the potential for faster normalisation of monetary policy by the world's major central banks. However, the US Federal Reserve (Fed) reiterated their accommodative stance at their scheduled meeting in March, highlighting that they want to continue supporting the economy and not withdraw liquidity sooner than necessary.

In South Africa, the SARB also kept rates on hold at their scheduled meeting in March while upgrading their growth forecasts to 3.8% for this year. The property sector had a very good first quarter but is still not out of the woods. A pragmatic approach is required including a better understanding of which companies are more likely to recover from the Covid-19-induced recession. From an economic standpoint, malls servicing higher and lower-income sectors are more likely to recover from the crisis, due to asset class returns boosting higher-income earners' balance sheets, while lower-income earners benefited from government support during the crisis, with the middle-income market negatively affected by salary freezes and job cuts. Office space is not expected to recover soon, as this sector was already under pressure pre-pandemic, and together with companies implementing more flexible work-from-home strategies post the crisis, this would increase available office space, leading to pressure on supply. Logistical warehouses are expected to be more defensive, and would benefit in an economy where more people are working from home or remotely.

Headline inflation eased to 2.9% year-on-year (y/y) in February from 3.2% y/y in January. This marked the lowest inflation rate since June 2020 and is indeed below the SARB's 3-6% target band. The slowdown was led by services, which eased to 2.7% y/y while goods edged upwards to 3.1% y/y. CPI excluding food, non-alcoholic beverages, petrol and energy eased to 2.6% y/y from 3.3% y/y in January. Food and non-alcoholic beverages' contribution slowed while petrol prices also detracted from inflation. Administered prices rose to 2.7% y/y with regulated administered prices swinging into positive territory at 2.7% y/y. Meanwhile, unregulated administered prices held steady at 5.3% y/y. We expect headline inflation to remain relatively contained and to edge up towards the mid-point of the target band during the coming year. It continues to be worth bearing in mind that we are in a very soft inflation environment.

Portfolio Strategy

The Fund objective fits squarely on the lower end of the risk spectrum compared to most other investment products. During the last year – and number of years – the Fund served a valuable purpose to investors by delivering stable and positive returns in a particularly volatile and tough global as well as local investment environment.

Going forward, asset class returns will be highly dependent on what happens with the Covid-19 pandemic and infection rates, fiscal and monetary developments, as well as how quickly the local economy can shift back to a more normal operating environment. It continues to be worth bearing in mind that we are in a very soft inflation environment.

Clients can take some comfort in the fact that the inflation-adjusted returns are still in positive territory. Our positive yield environment locally is in contrast to the global environment where we have seen negative yields become more and more prevalent. This has been causing a problem for not only savers but also for the global economy and financial systems, with many unintended consequences and unanswered questions about the wider implications of negative rates. Locally, the yields have decreased to record low levels at the 'shorter end of the curve', i.e. the repo rate.

Against this backdrop, the Fund continues to be a valuable investment proposition to clients given that South African fixed-interest assets are attractively priced both in absolute terms as well as compared to the relatively benign inflation outlook. These local assets are trading at attractive levels which provide a good starting point and support the forward-looking return prospects of the Fund.

Melville Du Plessis
Portfolio Manager

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Quarter ending 31 March 2021

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