Quarterly Report

Counterpoint SCI Worldwide Flexible Fund

Quarter ending 31 March 2021

This Fund is suitable for investors seeking to both preserve and grow their wealth in real, hard currency terms (US Dollars) over time. The Fund is unrestricted in its choice of investments by asset class, size, industry or geography and has a recommended investment horizon of seven years or more.

Performance Table

Annualised Performance	Fund	Benchmark
3 Months	6.7%	1.7%
1 Year	7.6%	9.4%
3 Years	-1.0%	10.0%
5 Years	2.3%	10.4%
10 Years	4.5%	11.0%
Since Inception (May 2003)	9.6%	11.1%

Fund Details	
Benchmark	*CPI + 6% pa*
ASISA Category	*Worldwide Multi Asset Flexible*
Portfolio Managers	*Piet Viljoen*

The Fund

The Counterpoint SCI Worldwide Flexible fund is an unconstrained, diversified fund that invests in a mix of different asset classes. Although it is domiciled in South Africa, it is managed with the aim of generating real returns in US dollar terms over time. The purpose of the Fund is to preserve the wealth of South African investors in hard currency terms. It aims to do so with lower-than-average levels of volatility.

Market Review (all returns are denominated in US dollars)

During the quarter, the US dollar strengthened marginally against most currencies worldwide, the rand included. For the 12 months ending 31 March 2021, the US dollar was weak, and depreciated against a broad basket of currencies by around 7%.

Despite the stronger US dollar in the first quarter of this year, commodity prices were generally stronger, continuing their bull run of 2020. The oil price was particularly strong, along with the prices of platinum group metals. Gold was the one weak point, declining by 9.5% during the quarter. The corn price was strong, but most other agricultural commodity prices were down. As the world reopened, shipping conditions have become tight, and the Baltic Dry Index (an indicator of shipping costs) rocketed up by 54% in the quarter.

Short term interest rates globally remained at historically low levels, despite massive money printing worldwide, in response to the economic hardship caused by most governments' reaction to the Corona virus epidemic. Bonds in the USA had their worst quarter in memory, as yields increased from 0.8% to around 1.6% at the start of the quarter, in response to the increase in money supply and rising inflation expectations.

Global equity markets were firm during the quarter. The MSCI All Countries World Index (ACWI) was up by 4.7% for the quarter, and on the back of a strong last three quarters of 2020, up by 55% over the last 12 months. Emerging markets underperformed developed markets for the quarter, returning 2.3%. However, they remain ahead over the past 12 months with a strong

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Top 10 Holdings (%)	
SPDR Gold Trust	9.7
Counterpoint SCI Value Fund E	8.8
African Bank ABKI04 5.75% 130324	6.4
Counterpoint Global Equity Fund	5.5
RECM & Calibre Pref	4.8
R2040 9.00% 310140	4.7
Texas Pacific Land Corp	4.4
iShares EM Asia Local Govt	4.4
Vanguard Long-Term Government Bond ETF	3.7
Twitter	2.5
Total	**55.0**

Asset Allocation (%)	
SA Equity	16.0
SA Bonds	11.1
SA Cash	1.1
Global Equity	16.7
Global Commodities	27.5
Global Fixed Income	8.1
Global Cash	19.6
Total	**100.0**

return of 59%. South Africa was once again the exception here, up 12.3% for the quarter and 81% for the year. In fact, all the BRICs countries performed well.

Over the longer term (5 years) the US market remains the leader, with mid teen returns. Most European markets are bringing up the rear, albeit still with positive returns. In emerging markets, China, Taiwan, Korea, and Russia have been the best markets (generally not doing better than the US, though) and the "serial defaulters" - Turkey, Argentina, Greece and Pakistan - bringing up the rear, all with negative returns. Emerging markets have underperformed developed markets consistently over the past ten years - a reversal from the 2000 - 2010 period.

In terms of global sectors, the value sectors - financials, energy, real estate - outperformed during the quarter. At the same time, the "quality" and "growth" sectors of Consumer Staples, IT and Health Care all underperformed. Energy - mainly oil - was the standout sector with a return of 22.2% for the quarter. Longer term, the Materials, Consumer Discretionary and Telecommunications sectors continue to do well.

Management Process

In order to achieve its objective, the portfolio manager constructs the portfolio relative to a conceptual benchmark consisting of four equal global building blocks: cash, bonds, equities and commodities. At any point in time, the Fund will tilt away from expensive assets and towards cheap assets. As a result, the Fund will always own assets that respond to different economic stimuli in different ways, enabling it to offer acceptable real returns with reasonably low volatility, regardless of the economic environment. The Fund is consciously managed in a way that concedes that it is impossible to accurately forecast the future, and the Fund therefore maintains a balanced exposure to the major asset classes at all times, with tilts towards underlying value.

The Fund's bond exposure reduced, mainly through the underperformance of the asset class. We started the quarter underweight the conceptual benchmark with 21% exposure, and finished even more underweight, at a 19% exposure. Both the US and Asian government bond positions did poorly. The US bond position declined by 13%, and the Asian bonds by 5%. The South African Government bond returns were flat for the quarter, while the inflation-linked bond produced a small positive return. South African denominated bonds made up just over half the bond exposure. The Rand remains undervalued, and local yields are high, rewarding investors for taking on local risks. No transactions were done in this asset class.

The Funds equity exposure increased to 33% from last quarter's 28%. This was due to a combination of strong performance by certain holdings, as well as a net 2% purchase of new holdings. After a strong run, South African equity exposure was reduced, mainly via a sale of units in the Counterpoint SCI Value Fund. Exposure to US-based FRMO was increased while new holdings in Nintendo, Tinkoff Credit Systems (TCS) and Permanent TSB (PTSB) were added. The position in Steinhoff remains unchanged.

Nintendo is a leading Japanese game developer with leading global titles - amongst others, Mario brothers. It is valued at a significant discount to any other global gaming company. TCS is a Russian fintech bank with tremendous growth opportunities, very similar to Capitec here in South Africa, except that it is valued at a much lower level. We have added these two undervalued growth businesses to our existing holding in Twitter. Finally, PTSB is an Irish mortgage bank, which is valued at distress levels, despite the fact that the Irish economy - and housing market - is growing strongly. Steinhoff is a Frankfurt-listed global retailer which is currently in workout mode. Its equity could potentially be worth multiples of the current price. It could also be worthless, depending on how the recapitalisation works out. The Fund maintains a small exposure to this call option-like situation. For the quarter the Steinhoff share price increased by 120%. The Fund's equity position is now 50% in South Africa and 50% offshore.

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After these transactions, the Fund remains overweight equities, reflecting the manager's view that undervalued equities remain an attractive investment proposition.

The Fund's commodity position was increased to 27%, slightly above benchmark. Within the asset class the Fund took profits on some strong counters like Glencore and Cameco, while the gold position was built back up after a period of underperformance. Overall, oil and gas equity exposure is now up to 10%, the same as physical gold exposure (held via the SPDR gold trust). Commodity equity exposure is 7%. This reflects the view that the equity of energy companies offers the best return prospects in the commodity sector.

Apart from the SPDR gold trust, which makes up just under 10% exposure, the next biggest commodity exposure is to Texas Pacific Land trust, a company that earns royalties from shale gas production in the Permian basin. It also happened to be the biggest contributor to returns in the Fund for the quarter, having increased by 130%.

Exposure to cash remains high at 27% of the Fund. The cash is held in Singapore dollars, Japanese Yen and British Pound, all of which have depreciated slightly against the US dollar. There is evidence of risk-seeking behaviour in markets, and the cash holding will not only protect the Fund if there is a severe sell-off of risk assets, but put it in a position to accumulate attractive assets at lower prices.

During the quarter, the Fund maintained its exposure to South African rand-denominated assets at a level of 30% of the Fund's value. The portfolio manager regards this a fairly high exposure to SA assets, and expects it to decline over the next few years. At present SA assets offer very attractive return prospects - equities, bonds and the currency all remain undervalued, despite strong returns over the past few months. However, this attractive return profile comes with enhanced risk. Therefore, exposure is limited to the current level.

Performance Outcome

Although the Fund is rand-denominated, it is managed to preserve and grow the wealth of investors in US dollars (i.e. hard currency) terms. The benchmark is SA inflation plus 6% per annum, which translates to US inflation plus 2% per annum. This is because over the long term, the rand tends to depreciate against the US dollar by the difference in inflation between the two countries – which historically has been around 4% p.a. It is worth looking at the returns of the Fund in both rand and US dollar terms.

Over the past quarter, the Fund returned 6.7% in rand terms and 6.2% in US dollar terms. Longer term, it has done relatively poorly, which lead to a review of the management process which was implemented in Q3 2020. For the 6 month period the Fund returned 4.2% in rands, and due to rand strength, it returned 17.2% in US dollars. The manager is aware that the Fund's longer term track record needs to be rebuilt, and is focused on this issue. The good news is that since inception, the Fund is still holding its own against its benchmark, and the past 6 months show promising signs of a strong turnaround.

Major contributors to returns were Texas Pacific, Steinhoff, Cameco, Sabvest and FRMO Corp. Major detractors were the long term US Treasury bind position, the SPDR gold trust, Nintendo and Pan American Silver.

Given the current mix of assets in the Fund, the portfolio manager is confident of achieving its benchmark return going forward.

Piet Viljoen
Portfolio Manager

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