

Counterpoint SCI Enhanced Income Fund

Quarter ending 31 December 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	2.5%	1.0%
1 Year	7.3%	3.8%
3 Years	6.8%	5.5%
5 Years	7.8%	6.2%
Since Inception (December 2012)	7.0%	6.2%

Fund Details

Benchmark	STeFI Composite Index
ASISA Category	South African Multi Asset Income
Portfolio Managers	Daniel King Raihan Allie

Performance Review

The Counterpoint SCI Enhanced Income Fund returned 2.5% for the quarter, outperforming its benchmark, the Short-Term Fixed Interest (STeFI) Composite Rate, which returned 1.0%. The Fund's performance placed in the top quartile of the ASISA peer group category for the quarter.

The Fund's net return over 12 months is 7.3% versus the STeFI Composite return of 3.8% and a trailing CPI inflation rate of 5.5%. Increasingly, the Fund is incorporating more innovative strategies to outperform inflation, as short-term interest rates remain low relative to history.

Market Review and Portfolio Action

Global fixed income markets are being recalibrated to reflect the prospect of tighter monetary policy. The US Federal Reserve has committed to reduce its extensive bond buying programme over the next six months, and market-implied odds point towards more than one Fed Funds interest rate hike during 2022. US 10-year Treasury yields have begun to climb as a result, from a low of 1.2% in Q3'21 to above 1.7% currently.

CPI inflation rates are rising globally, reaching a 39-year high in the US during December. Accumulating inflation risk and speculation over higher US interest rates has thus led many emerging markets to enter a pre-emptive hiking cycle. The South African Reserve Bank's Monetary Policy Committee (MPC) increased the repo rate by 25 bps, to 3.75%. The hike came despite local inflation remaining within the MPC's targeted range of 3% to 6% over the forecast horizon. The rand weakened during the quarter but outperformed its emerging market peers against the US dollar.

The local bond market selloff was also relatively contained in Q4'21, possibly supported by what we believe are comparably cheap valuations. While we have historically maintained an underweight exposure to government bonds in the Fund, the current valuation of long-dated bonds warrants a higher weighting. South African CPI inflation expectations are below 6%, which implies a real yield of more than 4% on offer at the 'long end' of the bond curve. As such, we continue to opportunistically switch out of shorter-dated government bonds into longer-dated bonds, where expected capital gains adequately compensate us for the moderately higher volatility.

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Top 10 Holdings (%)

RSA Govt Bond R2040	9.0
RSA Govt Bond R2044	7.1
RSA Govt Bond R214	4.3
Sasol Financing Limited FRN	3.6
Nedbank FRN	2.6
Momentum Metropolitan Life Limited FRN	2.3
RSA Govt Bond R2030	2.2
RSA Govt Bond R213	2.0
Redefine Property FRN	1.9
RSA Govt Bond R2032	1.9
Total	36.8

Portfolio Strategy

While we favour valuations on the long end of the bond yield curve, we remain sensitive to South Africa's weak economic growth outlook, perpetuated by a reduction in Chinese growth expectations. As such, we continue to diversify our long-dated bond exposure with a sizable, low duration, floating rate note weighting in the Fund. 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.

Daniel King
Portfolio Manager

Asset Allocation (%)

SA FRN	55.5
SA Bonds	40.0
SA Cash	2.0
SA Preference Share	1.5
SA Other	1.0
Total	100.0

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