Quarterly Report

Counterpoint SCI Managed P&G® Fund

Quarter ending 31 December 2021

This Fund is suitable for an investor seeking to achieve long term income and capital growth at moderate aggressive risk levels. The Fund is Regulation 28 compliant and has a maximum effective equity exposure limit of 75%. The recommended investment horizon is five years or more.

Performance Table

Annualised Performance	Fund	Benchmark
3 Months	5.3%	2.5%
1 Year	33.5%	11.8%
3 Year	2.8%	10.3%
5 Year	1.8%	10.4%
Since Inception (March 2012)	7.2%	11.0%

Fund Details	
Benchmark	*CPI + 6% over rolling 60-month periods*
ASISA Category	*South African Multi Asset High Equity*
Portfolio Managers	*Ian Anderson Richard Henwood*

Market Overview

The fourth quarter of 2021 saw heightened levels of volatility in global financial markets as investors weighed the policy response of central banks to rapidly rising inflation against a steadily improving growth outlook as more countries removed COVID-related restrictions. The emergence of Omicron muddied the waters for investors and policymakers alike, with several countries imposing travel bans on Southern Africa, where the variant was first identified. China's property market remains in turmoil following tighter regulations, including limits on how much developers can borrow, after China Evergrande Group and Kaisa missed payment deadlines on their offshore bonds. China's property market has been a major growth driver for the country and with further weakness expected in the first half of 2022, analysts expect China's GDP growth to slow to 5% in 2022 from around 8% in 2021. Despite the uncertainty posed by Omicron and China's property market, global equity markets continued to push higher during the quarter, with the S&P 500 Index gaining 11.0% and the FTSE 100 Index gaining 4.2%.

Global bond yields drifted sideways throughout the fourth quarter despite a sharp spike in global inflation. US consumer inflation hit a 40-year high in November as prices in the US surged 6.8% year-on-year. Supply chain disruptions and labour shortages have been the main drivers of higher prices and their impact now appears to be less transitory than originally forecast. This has prompted the Fed to adopt a more hawkish stance and official interest rates are now expected to start rising in the US from as early as March, with three hikes of 25 basis points each forecast for 2022 and a further two hikes forecast for 2023. Rising food prices are also expected to cause inflation to rise in 2022, but this will be offset by more stable energy prices.

South African financial markets took their cue from global markets, with bond yields drifting sideways to slightly higher and equity prices rising sharply. The FTSE/JSE All Share Index gained 15.1% in the fourth quarter as Resources (+21.6%) and Industrials (+16.1%) posted impressive gains. While gains in the Resources sector were broad-based, Richemont's 55% return, together with the continued recovery of the Travel & Leisure sector (+28.6%) were the major contributors to the strong performance by Industrials. Retailers (-2.8%), Life Insurance (-4.8%) and Food Producers (-6.5%) were amongst the worst performers in the fourth quarter. The FTSE/JSE SA Listed Property Index continued to add to its gains in 2021, returning 8.3% during the quarter, while the All Bond Index posted a total return of 2.9%. The rand weakened sharply in the fourth quarter following the introduction of travel bans to Southern Africa by several countries, including the US and UK.

COUNTERPOINT ASSET MANAGEMENT

Counterpoint SCI Managed P&G® Fund

Quarter ending 31 December 2021

Top 10 Holdings (%)	
Fairvest Property Holdings	3.9
Dipula Income Fund B	3.1
RSA Govt Bond R2030	3.1
Spear REIT Ltd	3.1
RSA Govt Bond R2035	3.0
RSA Govt Bond R2040	3.0
Reunert	2.8
Liberty Holdings	2.8
Anglo American	2.8
Nedbank Group	2.8
Total	**30.5**

Asset Allocation (%)	
SA Equity	62.9
SA Property	19.6
SA Fixed Income	13.5
SA Preference Share	2.4
SA Cash	1.7
Total	**100.0**

Portfolio & Performance

During the quarter, the Fund returned 5.3%, significantly outperforming its benchmark (CPI + 6%) but underperforming the peer group average. The strong absolute performance resulted from the continued recovery in the prices of SA Inc stocks, listed property securities and preference shares. Delta Property Fund rallied more than 40% during the quarter, while Spear REIT was up 26.9%. Investec plc (+37.8%) and Anglo American (+22.3%) were also meaningful contributors to the good returns in the fourth quarter. The Fund's +3% allocation to preference shares added just under 1% to the Fund's overall return following decisions by Investec and Nedbank to redeem their preference shares at prices substantially above market.

The Fund disposed of its holding in Tower Property Fund. Tower has been a core holding in the portfolio for quite some time, given its exposure to the Western Cape. Tower was acquired by RDC Properties at a price substantially above the market price at the time of the announcement. The proceeds from the disposal in Tower were invested in longer-dated SA government bonds which continue to offer exceptional value and extremely attractive real yields.

The Fund continued to reduce its exposure to floating rate notes, notwithstanding the South African Reserve Bank's decision to start hiking interest rates following the conclusion of their November policy meeting. The Fund's exposure to preference shares was also reduced following the redemption of Investec Bank Limited's preference share in December, with the proceeds invested into longer-dated SA government bonds.

Current Positioning and Outlook

The Fund's current allocation to growth assets (equities and listed property) has now grown to 83.6%, which is still some way off the maximum permissible allocation of 90% (65% equity and 25% listed property). The mix between floating rate notes and fixed coupon bonds continues to change, reflecting the attractive valuations in the South African bond market. Total exposure to RSA government bonds has increased to 8.7% from 6.2% at the end of the third quarter.

Based on a combination of Bloomberg, FactSet, IRESS and Counterpoint forecasts, the current one-year forward income yield on the Fund is 6.8%, which compares very favourably with the yield on money market and income funds, despite having an 84% allocation to growth assets. Based on those same forecasts, the income produced by the portfolio is expected to grow at approximately 13.4% per annum over the next three years, comfortably outstripping current inflation expectations over that same period.

The Fund is ideally suited for investors looking to build an income for their retirement and then to manage that income in retirement such that the major risks facing retirees, namely longevity (how long am I going to live), sequence of returns risk (getting the returns when you need them) and inflation (the hurdle rate and one that grows rather than shrinks in retirement), are mitigated and in some instances completely eradicated. Investors can live off the income provided by the portfolio and not draw excessively against the capital. In this way, the investor's capital is preserved and is only utilised in emergencies during their retirement, irrespective of how long that retirement lasts.

Ian Anderson
Portfolio Manager

Counterpoint SCI Managed P&G® Fund

Quarter ending 30 September 2021

Disclaimer

Counterpoint Boutique (Pty) Ltd accepts no liability of any sort resulting from reliance being placed upon information contained in this document by any person. Whilst every effort is made to represent accurate financial and technical information on an ongoing basis, inadvertent errors and typographical inaccuracies may occur. Information, laws, rules and regulations may also change from time to time. Information contained is therefore made available without any express or implied representation or warranty whatsoever, and Counterpoint Boutique (Pty) Ltd disclaims liability for any expenses incurred, or any damage, claims or costs sustained by users arising from the reliance being placed on the use of services or any information or representations contained in this document. The materials contained on these pages are provided for general information purposes only. We accept no responsibility for any loss or damage which may arise from reliance on information contained in these pages.

The document should not be seen as an offer to purchase any specific product and is not to be construed as advice or guidance in any form whatsoever. Investors are encouraged to obtain independent professional investment advice before investing. Investors should be aware that investing in a financial product entails a level of risk which depends on the nature of the investment. The merits of any investment should be considered together with the investor's specific risk profile and investment objectives. Collective Investment Schemes are generally long term investments. Counterpoint Boutique (Pty) Ltd does not provide any guarantee, either with respect to the capital or the return of a portfolio. Past performance is not necessarily a guide to future performance. Fluctuations in exchange rates and underlying investments may cause the value of international investments or underlying investments, if included in the mandate, to go up or down. Illustrations are not guaranteed but are for illustrative purposes only. Counterpoint Boutique Pty (Ltd) is an Authorised Financial Service Provider (FSP44508).