

Counterpoint SCI Stable P&G[®] Fund

Quarter ending 31 December 2021

This Fund is suitable for investors who require a balance between growth and income at moderate to conservative risk levels. The Fund is Regulation 28 compliant and has a maximum effective equity exposure limit of 40%. The recommended investment horizon is three years or more.

Performance Table

Annualised Performance	Fund	Benchmark
3 Months	5.7%	2.0%
1 Year	28.3%	9.8%
3 Years	3.7%	8.3%
5 Years	3.0%	8.4%
Since Inception (May 2009)	7.1%	9.0%

Fund Details

Benchmark	CPI for all urban areas + 4% over rolling 60-month periods
ASISA Category	South African Multi Asset Low 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

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Top 10 Holdings (%)

RSA Govt Bond R2030	5.5
RSA Govt Bond R2035	5.4
Fairvest Property Holdings	4.1
Spear REIT Ltd	4.0
Dipula Income Fund B	3.7
RSA Govt Bond R186	3.7
Arrowhead Prop Ltd B	2.5
Equites Property Fund	2.1
Stor-Age Property REIT Ltd	1.9
Investec PLC	1.9
Total	34.6

Asset Allocation (%)

SA Equity	38.5
SA Fixed Income	34.0
SA Property	21.7
SA Preference Share	3.8
SA Cash	2.0
Total	100.0

sharply in the fourth quarter following the introduction of travel bans to Southern Africa by several countries, including the US and UK.

Portfolio & Performance

During the quarter, the Fund returned 5.7%, outperforming its benchmark (CPI + 4%) and the peer group average. The strong absolute and relative 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 +5% allocation to preference shares added more than 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) is now just above 60%, which is not far off the maximum permissible allocation of 65% (40% 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 14.0% from 7.4% 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 7.3%, which compares very favourably with the yield on money market and income funds, despite having a 60% allocation to growth assets. Based on those same forecasts, the income produced by the portfolio is expected to grow at approximately 8.4% per annum over the next three years, comfortably outstripping current inflation expectations over that same period.

Ian Anderson
Portfolio Manager

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Total	34.6

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.

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