Quarterly Report

Counterpoint SCI Value Fund

Quarter ending 31 December 2021

The Fund invests exclusively in South African equities with the aim of outperforming the local equity market over time by selecting shares based on a value philosophy. The recommended investment horizon is seven years or more.

Performance Table

Annualised Performance	Fund	Benchmark
3 Months	7.2%	15.1%
1 Year	43.6%	29.2%
3 Years	23.9%	15.7%
5 Years	14.7%	11.4%
Since Inception (January 2012)	12.8%	12.2%

Fund Details	
Benchmark	*FTSE/JSE ALSI*
ASISA Category	*SA Equity General*
Portfolio Manager	*Piet Viljoen*

The Fund

The Counterpoint SCI Value Fund is an unconstrained, diversified South African Equity Fund that aims to outperform the JSE All Share Index. To do so, it invests in South African listed assets, and utilises a value based philosophy.

Market Review

For the quarter, the JSE All Share Index performed strongly, gaining 15,1%. However, underlying this were quite divergent sectoral performances. In a reversal of the previous quarter, resources were strong, gaining 22%, while financials did less well gaining only 3%

For the full calendar year, the All Share Index was up by a generous 29,2%. The sectoral difference was minimal, ranging from 26% for Industrials to 32% for resources. The big outperformer for the year were small caps, which gained 59%. Large caps underperformed, with the ALSI 40 only gaining 17% and underperforming the broader index.

Over five years, the All Share Index (ALSI) has returned 11,4% annually. The rand has depreciated by just over 3% p.a. over this period. The ALSI has grown by just over 8% p.a. in US$ terms over the five-year period. This represents a more than satisfactory return even in hard currency terms. This return has been generated despite widespread pessimism around the prospects for investing in South Africa.

Over the five-year period, the property sector has been the worst performing sector in South Africa, returning a negative 5% p.a. Conversely, the resource sector has enjoyed a massive bull market, returning 23% p.a.

Performance Outcome

For the quarter, the Fund returned 7,2%, compared to the average fund in the general equity fund sector of 9,3% and the ALSI's return of 15,1%. It's clear that most funds struggled to match

COUNTERPOINT ASSET MANAGEMENT

Counterpoint SCI Value Fund

Quarter ending 31 December 2021

Top 10 Holdings (%)	
Nedbank	4.8
ABSA Group	4.7
Exxaro	4.6
Sasol	4.4
Glencore Xstrata Plc	3.5
British American Tobacco	3.5
Anglo American	3.1
Anheuser-Busch Inbev SA	3.0
MTN Group	2.9
Sanlam	2.9
Total	**37.3**

Asset Allocation (%)	
SA Equity	90.0
SA Cash	10.0
Total	**100.0**

the ASLI for the quarter, as resources did extremely well while the ever-popular financial sector struggled. Contributors to the Fund's performance were small cap Rebosis A, Santova and Renergen, while large caps MTN, Anglo American and Glencore also helped. Detractors were previous winners Sasol, Exxaro and Aveng.

For the 12-month period, the Fund has returned 44%, well ahead of the All Share Index return of 29%. Most funds struggled, as the average general equity fund returned 28% for the year. The Value Fund, with its broad SA-only mandate did well in this environment.

Over five years the Fund has returned 14,7% p.a. – again well ahead of the All Share Index return of 11,4% p.a. and the 5,6% p.a. of the average general equity fund. These numbers clearly illustrate the difficulty that large funds have in outperforming their benchmark over any reasonable period.

The Funds return of 14,7% in rand equates to 8,1% p.a. in US$ terms. This is a more than satisfactory hard currency return.

Importantly, the Fund has achieved these outcomes by consistently applying conservative valuations coupled with broad diversification and a sensible risk management process. In addition, the Fund keeps trading to a minimum. For the fourth quarter of 2021 it once again only paid 8 basis points in trading commissions and other costs, bringing the total for the full year to 46bps.

Management Process

During the quarter, the Fund continued to build out its cash buffer to 10%. It bears reiterating that this action does not reflect a directional view on the market; it rather reflects a dearth of compelling new high-quality ideas and a few existing ideas that have run hard. It is worth mentioning that the Fund is limited to always having at least 70% of its equity exposure in quality stocks. There are still many small cap, lesser quality bargains available, but not so much in the mid/large cap quality space. This limits the amount of overall equity exposure the Fund can have.

The Fund increased its weighting of financial shares by adding to existing holdings of ABSA, Nedbank, and Sanlam. These are all now in the top 10 holdings of the Fund. The biggest new addition to the Fund during the quarter was in the fund manager NinetyOne.

The industrial exposure was reduced somewhat. Holdings of MTN and Shoprite were somewhat reduced, as their discounts to fair value had reduced substantially. Advtech was sold out completely as it had reached a premium to its fair value. New positions in Reunert, Telkom and Tsogo Hotels were added.

Despite this, the industrial sector remains the biggest overweight in the Fund. This is where a lot of the deeply ignored and grossly undervalued situations in the local market reside, principally in the small cap "SA Inc." sector. Today, funds are flowing out of actively managed funds in South Africa and into either local passive funds or offshore funds. Local large fund managers are the biggest loser in this regard, and they have no interest or ability to buy local small cap industrial shares. We believe this continues to create a significant opportunity for local, smaller, active managers such as Counterpoint. And this is an opportunity we are grabbing with both hands.

Resource shares had a good quarter but continue to be priced as if the commodity cycle is about to turn down. Given the ongoing large-scale underinvestment in replacing reserves, the demands on resources posed by the "greenification" of the global economy, as well as a potential global drive to invest in infrastructure, firm commodity prices could be with us for some time to come.

The Fund increased its exposure to this sector via additional purchases of Exxaro, Glencore and Sasol. We remain positive on the outlook for the energy sector, given increased demand and ever-increasing constraints on the supply of dependable energy.

Exposure to the property sector continues to increase – but in small increments. We believe the property sector continues to face severe headwinds, both from a fundamental perspective due to historic over investment as well as from a valuation perspective due to increasing capitalisation rates.

Piet Viljoen

Portfolio Manager

Counterpoint SCI Value Fund

Quarter ending 31 December 2021

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