Quarterly Report

Counterpoint SCI Worldwide Flexible Fund

Quarter ending 31 December 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	6.1%	2.5%
1 Year	19.0%	11.8%
3 Years	3.1%	10.3%
5 Years	2.1%	10.4%
10 Years	4.7%	11.0%
Since Inception (May 2003)	9.8%	11.1%

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

The Fund

The Counterpoint SCI Worldwide Flexible Fund is an unconstrained, diversified fund that invests in a combination of asset classes. Although the Fund is domiciled in South Africa, it is managed to generate a real return in US$ terms over time, i.e. a return in excess of the inflation rate in the USA. 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$ continued to strengthen against most currencies worldwide. For the past year the US$ Index (DXY) has been in a trading range, and it seems to have broken out to the upside. Fundamentally, the US$ is one of the most overvalued currencies in the world, but in the short term at least it seems to have momentum behind it. The US$ remains the world's reserve currency, and other currencies (the rand included) tend to move to the beat of the US$ drum.

Over the quarter, the South African rand weakened by 8% from R14,80 to a touch under R16,00 to the US$. Over the past five years, the rand has depreciated by just over 3% p.a. against the US$ - a rate of depreciation in line with fundamentals. Like most ultra-bearish scenarios, expectations of a collapse in the currency have not come to fruition, despite a less than benign political and social environment.

Short-term interest rates globally remained at historically low levels, despite continued money printing worldwide as central banks respond to the economic hardship caused by most governments' reaction to the Corona virus pandemic. The exception remains in emerging markets, where monetary policy is being managed more responsibly.

Treasury bond yields in the USA were flat during the quarter, remaining at the low level of 1,5%. The yield curve in the USA flattened somewhat, as short rates rose marginally from 0,1% to 0,4%. Most emerging market bond yields increased, with South African yields moving sideways as 10-year yields remain just above the 9% level. Given that the SA inflation rate is currently below that of the USA, local bonds continue to offer very good value.

COUNTERPOINT ASSET MANAGEMENT

Counterpoint SCI Worldwide Flexible Fund

Quarter ending 31 December 2021

Top 10 Holdings (%)	
SPDR Gold Trust	10.6
RSA Govt Bond 2040	10.3
African Bank ABKI04	6.2
Aberdeen Standard - Platinum EFT	3.9
Texas Pacific Land	3.4
Sabvest Capital Limited	3.2
Counterpoint SCI Value Fund E	3.1
Astoria Investments Ltd	2.8
iShares EM Asia Local Govt	2.6
RECM & Calibre	2.6
Total	**48.7**

Asset Allocation (%)	
Cash	29.6
Fixed Income	19.1
Equity	21.6
Commodities	29.7
Total	**100.0**

Commodity prices remained in a bull market, with both the CRB Index and the GSC Index reaching new highs during the quarter. However, they remain well below the levels reached at the top of the last bull market in 2008. After its steep fall earlier in the year, iron ore recovered some of its losses. Most other commodities were flat to only slightly up in the quarter.

Global equity markets were strong over the past three months. The ACWI gained 8%, and over 22% for the full calendar year. Emerging markets once again underperformed developed markets for the quarter, declining by just over 1%. Globally, the best sectors were an interesting combination of energy, financials and IT, while the worst sectors were the defensives, namely utilities and staples.

Over the longer term (five years) the US market remains the leader, with high teen returns. The UK market remains one of the weaker markets over the same time frame. Emerging markets have also underperformed, especially Latin American markets. In fact, emerging markets have underperformed developed markets consistently over the past 11 years - a reversal from the 2000 - 2010 period. Within emerging markets, South Africa has been a relatively poor performer, despite strong commodity prices.

Performance Outcome

Although the fund is rand denominated, it is managed to preserve and grow the wealth of investors in US$ (i.e. hard currency) terms. The benchmark is US inflation plus 6% (which is equivalent to SA inflation plus 6%). It is useful to look at the returns of the Fund in both rand and US$ terms, but the US$ returns are what really matter.

Over the past quarter, the Fund returned 6,1% in rand terms and 0,2% in US$ terms. Longer-term returns for the Fund have been disappointing which, as previously discussed, led to a review of the management process. Changes to the process were implemented in Q3 2020. For the 15-month period after this change, the Fund has returned 9% in rand, and due to the slightly stronger local currency over this period, it returned 14% in US$. This compares to local inflation and US inflation both increasing to around 6%.

The Fund's longer-term track record needs to be rebuilt, and this process is on track. The good news is that since inception the Fund is still holding its own against its benchmark. And the past year shows promising signs of a turnaround in the medium-term performance.

Management Process

The Fund has four building blocks, consisting of allocations to the broad global asset classes of cash, bonds, equities and commodities. Each block represents 25% of fund value, with very small tilts 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 acknowledges the poor track record of forecasters, and therefore always maintains a reasonably balanced exposure to all the major asset classes.

The first building block is the cash asset class. With interest rates being negative in real terms (i.e. after inflation) around the world, the Fund maintains a neutral exposure to cash at 25%. The bulk of the cash is held in US$, although a small portion was shifted into yen and Singapore dollar during the quarter, as the US$ was trading well above its purchasing power parity value. There is also a small frictional exposure to rand, taking advantage of rand weakness towards the end of the quarter.

The second building block is the bond asset class. The Fund's bond exposure remains as low as possible at 20%. The Fund continued to switch Asian government bond exposure into South African government bond exposure to take advantage of the much higher yields – and more undervalued currency – available locally. Local bonds trade at spreads of over 5% above

Counterpoint SCI Worldwide Flexible Fund

Quarter ending 31 December 2021

those available in Asia, while having a very similar inflation rate. The offshore bond component now makes up 3% of the Fund, while the South African bond holding makes up 17% of the Fund. Local bonds are split between inflation-linked and government bonds. The rand remains undervalued and local yields are high, compensating investors for taking on local risks.

The third building block – equity - is at 22% of the Fund, which is slightly underweight its benchmark. The Fund switched some of its more "growthy" holdings such as Tinkoff Credit Systems and Nintendo into more value-orientated stocks such as Compagnie de l'Ódet (the holding company of Bollore Group), ABInbev and T-Mobile USA.

The Fund reduced its South African equity position from 65% to 55% of the overall equity position.

The fourth building block, commodities, was reduced by 3% to its maximum weight of 30%. Most of the Fund's commodity holdings performed very well during the quarter and had to be sold to rebalance the weight as a risk management process.

Within this block, energy equity exposure was reduced from 12% to 9%, physical precious metal exposure is at 16% while commodity equity exposure remains at 5%. The biggest equity exposures are all in the energy sector, being Texas Pacific Land Corp (an oil and gas royalty owner), Cameco (a uranium miner) and Viper Energy Partners (also an oil and gas and royalty owner). The weighting of BP was increased during the quarter as well. Commodities remain in a bull market, and the Fund's exposure reflects this fact.

During the quarter, the Fund's exposure to South African rand denominated assets remained at 34%. This is a high exposure to SA assets and is expected 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 the strong returns achieved over the past few years. However, this attractive return profile comes with enhanced risk. Therefore, exposure is limited to the current level.

Piet Viljoen
Portfolio Manager

Counterpoint SCI Worldwide Flexible Fund

Quarter ending 31 December 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).