

# Counterpoint SCI\* Dividend Equity Fund

## Minimum Disclosure Document

As of 2020/09/30



MDD Issue Date: 2020/10/16

### Fund Objective

The portfolio follows a total return approach, with a significant portion of returns coming in the form of dividends.

### Fund Strategy

The fund employs a 'dividend *growth plus yield*' strategy and targets total returns. Long term views are taken on investments. The fund seeks to hold lucrative investments for extended periods in order to capture the benefit of compounding.

The strategy seeks to invest in *quality* businesses exhibiting the following attributes:

- Sustainable real growth in *future* expected earnings and dividends
- A *track record* of predictable cash flow and healthy profit and dividend growth
- High prospective returns on capital with conservative use of gearing
- Robust business model, customer value offering and competitive strengths
- Management who display integrity, stewardship and continuous improvement
- Forward dividend *yield* greater than the market average
- Price which offers attractive *absolute value*, at a conservative margin of safety

The fund's investment universe includes equity and property securities, preference shares, assets in liquid form as well as participatory interests in collective investment schemes registered in the Republic of South Africa. The fund may invest in listed and unlisted financial instruments, in accordance with the provisions of the Act and Regulations, as well as in offshore investments as permitted by legislation.

### Fund Information

Ticker	MEHA1
ISIN	ZAE000172771
Portfolio Manager	Ray Shapiro, Sam Houlie & Piet Viljoen
ASISA Fund Classification	South African - Equity - General
Risk Profile	Aggressive
Benchmark	Peer Group Average of the General Equity Sector
Fund Size	R 217 893 647
Portfolio Launch Date*	2012/12/07
Fee Class Launch Date*	2012/12/07
Minimum Lump Sum Investment	R 10 000
Minimum Monthly Investment	R 500
Income Declaration Date	June & December
Income Payment Date	1st business day of July & January
Portfolio Valuation Time	15:00
Transaction Cut Off Time	15:00
Daily Price Information	Local media
Repurchase Period	2-3 business days

### Fees (Incl. VAT)

### A1-Class (%)

Maximum Initial Advice Fee	3,45
Maximum Annual Advice Fee	—
Manager Annual Fee	0,95
Total Expense Ratio	1,02
Transaction Cost	0,14
Total Investment Charges	1,16
Performance Fee	—
TER Measurement Period	01 July 2017 - 30 June 2020

Total Expense Ratio (TER) is the percentage value of the Financial Product that was incurred as expenses relating to the administration of the Financial Product. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's.

Transaction Cost (TC) is the percentage value of the Financial Product that was incurred as costs relating to the buying and selling of the assets underlying the Financial Product. Transaction Costs are a necessary cost in administering the Financial Product and impacts Financial Product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of Financial Product, the investment decisions of the investment manager and the TER.

Total Investment Charges (TER + TC) is the total percentage value of the Financial Product that was incurred as costs relating to the investment of the Financial Product.

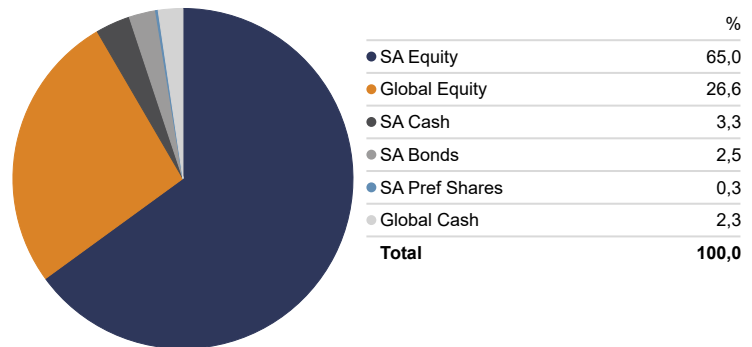
\*The Counterpoint Sanlam Collective Investments Dividend Equity Fund transitioned to Sanlam Collective Investments (RF) (Pty) Ltd on 2 December 2017.

### Top Ten Holdings

	(%)
British American Tobacco	6,6
Spar Group	6,1
FirstRand	4,2
JSE Limited	4,1
Storage Property Reit Ltd	3,2
RMI Holdings	2,8
Santam	2,5
Quilter	2,3
Hudaco Industries Ltd	2,3
Netcare Limited	2,1

### Asset Allocation

Portfolio Date: 2020/09/30



### Annualised Performance (%)

	Fund	Benchmark
1 Year	-16,0	-2,9
3 Years	-2,4	-1,2
5 Years	0,7	1,4
Since Inception	4,2	4,9

### Cumulative Performance (%)

	Fund	Benchmark
1 Year	-16,0	-2,9
3 Years	-7,0	-3,4
5 Years	3,5	7,1
Since Inception	38,2	44,8

### Highest and Lowest Annual Returns

Time Period: Since Inception to 2019/12/31

Highest Annual %	14,5
Lowest Annual %	-2,4

### Risk Statistics (3 Year Rolling)

Standard Deviation	12,1
Sharpe Ratio	-0,7
Information Ratio	-0,2
Maximum Drawdown	-22,5

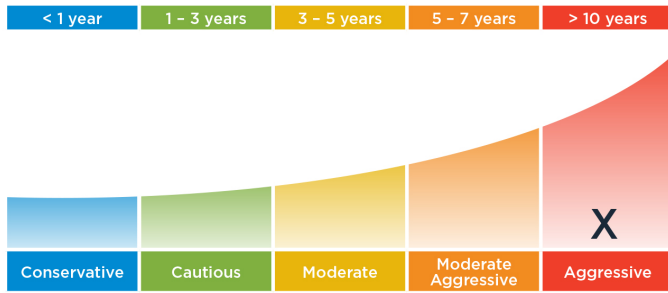
### Distribution History (Cents Per Unit)

2020/06/30	2.71 cpu	2018/06/30	2.13 cpu	2016/12/31	1.74 cpu
2019/12/31	2.57 cpu	2017/12/31	0.65 cpu	2016/06/30	0.96 cpu
2019/06/30	2.58 cpu	2017/12/01	1.38 cpu	2016/04/30	1.65 cpu
2018/12/31	2.58 cpu	2017/06/30	2.15 cpu		

Administered by



### Risk Profile



### Glossary Terms

#### Annualised Returns

Annualised return is the weighted average compound growth rate over the period measured.

#### Asset Allocation

Asset allocation is the percentage holding in different asset classes (i.e. equities, bonds, property, etc.). It is used to determine the level of diversification in a portfolio.

#### Distributions

The income that is generated from an investment and given to investors through monthly, quarterly, bi-annual or annual distribution pay-outs.

#### Derivatives

Derivatives are instruments generally used as an instrument to protect against risk (capital losses), but can also be used for speculative purposes. Examples are futures, options and swaps.

#### Liquidity

The ability to easily turn assets or investments into cash.

#### Information Ratio

The Information Ratio measures the market risk-adjusted performance of an investment or portfolio. The greater a portfolio's Information Ratio, the better its risk-adjusted performance has been compared to the market in general.

#### Maximum Drawdown

The maximum drawdown measures the highest peak to trough loss experienced by the fund.

#### Money Market Instruments

A money market instrument is a low risk, highly liquid, short-term (one year or less) debt instrument, issued by financial institutions or governments, that tend to have lower returns than high-risk investments.

#### Participatory Interests

When you buy a unit trust, your money is pooled with that of many other investors. The total value of the pool of invested money in a unit trust fund is split into equal portions called participatory interests or units. When you invest your money in a unit trust, you buy a portion of the participatory interests in the total unit trust portfolio. Participatory interests are therefore the number of units that you have in a particular unit trust portfolio.

#### Regulation 28

Regulation 28 of the Pension Funds Act sets out prudent investment limits on certain asset classes in investment funds. It applies specifically to investments in Retirement Annuities and Preservation Funds. The allowed maximum exposures to certain asset classes is: 75% for equities, 25% for property, 25% for foreign (offshore) assets and 5% African assets.

#### Risk-adjusted returns

Risk-adjusted return refines an investment's return by measuring how much risk is involved in producing that return, which is generally expressed as a number or rating.

#### Sharpe Ratio

The Sharpe Ratio measures total risk-adjusted performance of an investment or portfolio. It measures the amount of risk associated with the returns generated by the portfolio and indicates whether a portfolio's returns are due to excessive risk or not. The greater a portfolio's Sharpe ratio, the better its risk-adjusted performance has been (i.e. a higher return with a contained risk profile, where the portfolio manager is not taking excessive risk to achieve those returns).

#### Standard Deviation

Standard deviation (also called monthly volatility) is a measure of how much returns on an investment change from month to month. It is typically used by investors to gauge the volatility expected of an investment.

### Additional Information

All reasonable steps have been taken to ensure the information on this MDD is accurate. The information to follow does not constitute financial advice as contemplated in terms of the Financial Advisory and Intermediary Services Act. Use or rely on this information at your own risk. Independent professional financial advice should always be sought before making an investment decision. The Sanlam Group is a full member of the Association for Savings and Investment SA. Collective investment schemes are generally medium- to long-term investments. Please note that past performances are not necessarily a guide to future performances, and that the value of investments / units / unit trusts may go down as well as up. A schedule of fees and charges and maximum commissions is available on request from the Manager, Sanlam Collective Investments (RF) Pty Ltd, a registered and approved Manager in Collective Investment Schemes in Securities. Additional information of the proposed investment, including brochures, application forms and annual or quarterly reports, can be obtained on request from the Manager, free of charge. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. Collective investments are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any deductible expenses such as audit fees, brokerage and service fees. Actual investment performance of the portfolio and the investor will differ depending on the initial fees applicable, the actual investment date, and the date of reinvestment of income as well as dividend withholding tax. Forward pricing is used. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The performance of the portfolio depends on the underlying assets and variable market factors. Performance is based on NAV to NAV calculations with income reinvestments done on the ex-div date. Lump sum investment performances are quoted. The portfolio may invest in participatory interests of other unit trust portfolios. These underlying funds levy their own fees, and may result in a higher fee structure for our portfolio. All the portfolio options presented are approved collective investment schemes in terms of Collective Investment Schemes Control Act, No 45 of 2002 ("CISCA"). The Manager may borrow up to 10% the market value of the portfolio to bridge insufficient liquidity. The fund may from time to time invest in foreign countries and therefore it may have risks regarding liquidity, the repatriation of funds, political and macroeconomic situations, foreign exchange, tax, settlement, and the availability of information. The fund may invest in financial instruments (derivatives) for efficient portfolio management purposes. The Manager has the right to close any portfolios to new investors to manage them more efficiently in accordance with their mandates. Management of the portfolio is outsourced to Counterpoint Boutique (Pty) Ltd, (FSP) Licence No. 44508, an Authorised Financial Services Provider under the Financial Advisory and Intermediary Services Act, 2002. Sanlam Collective Investments (RF) (Pty) Ltd retains full legal responsibility for the co-named portfolio. Standard Bank of South Africa Ltd is the appointed trustee of the Sanlam Collective Investments scheme. Sources of Performance and Risk Data: Morningstar Direct, INET BFA and Bloomberg. The risk free asset assumed for the calculation of Sharpe ratios: STEFI Composite Index. The highest and lowest 12-month returns are based on a calendar year period over 10 years or since inception where the performance history does not exist for 10 years. Obtain a personalised cost estimate before investing by visiting [www.sanlamunittrustsmdd.co.za](http://www.sanlamunittrustsmdd.co.za) and using our Effective Annual Cost (EAC) calculator. Alternatively, contact us at 0860 100 266.

#### Investment Manager Information

Counterpoint Boutique (Pty) Ltd  
(FSP) License No. 44508  
Physical Address: 6th Floor, Claremont Central, 8 Vineyard Road, Claremont, Cape Town  
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Website: [www.cpam.co.za](http://www.cpam.co.za)

#### Manager Information

Sanlam Collective Investments (RF) (Pty) Ltd  
Physical Address: 2 Strand Road, Bellville, 7530  
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Email: [service@sanlaminvestments.com](mailto:service@sanlaminvestments.com)  
Website: [www.sanlamunittrusts.co.za](http://www.sanlamunittrusts.co.za)

#### Trustee Information

Standard Bank of South Africa Ltd  
Tel: +27 (21) 441 4100  
Email: [compliance-sanlam@standardbank.co.za](mailto:compliance-sanlam@standardbank.co.za)

### Portfolio Manager Comment

As at 30 September 2020

#### Portfolio overview

The Dividend Equity Fund follows a long-term, objective-based approach. The Fund's primary objective is for total investment returns to exceed SA Inflation + 6% per annum, over the long run (7yrs and longer). Parallel and contributing objectives are for the Fund to provide an income yield (after dividend withholding taxes) greater than the FTSE/JSE All Share Index (ALSI); to grow distributions ahead of SA inflation; and to achieve its objectives at a lower level of risk\* than the ALSI.

The Fund employs a 'dividend growth plus yield' strategy and targets total returns. Long term views are taken on investments. The Fund seeks to hold lucrative investments for extended periods to capture the benefit of compounding.

The strategy seeks to invest in quality businesses exhibiting the following attributes:

- Sustainable real growth in future expected earnings and dividends
- A track record of predictable cash flow and healthy profit and dividend growth
- High prospective returns on capital with conservative use of gearing
- Robust business model, customer value offering and competitive strengths
- Management who display integrity, stewardship and continuous improvement
- Forward dividend yield greater than the ALSI
- Price which offers attractive absolute value, at a conservative margin of safety

Given the emphasis on predictable dividend growth the Fund is unlikely to hold a significant weighting in Resource shares due to the highly unpredictable nature of future earnings and dividend growth in these businesses. Additionally, due to its yield objective the Fund is unlikely to hold significant positions in low yielding stocks.

The Fund is mandated to invest up to 30% of the portfolio in offshore investments plus a maximum of 10% in Africa (excluding South Africa) investments. A minimum of 80% of the market value of the Fund must be invested in equities.

\*risk as measured by standard deviation over a 3-year rolling period

The Fund posted a -0.1% return for the quarter, as uncertainty prevailed around the shape of a global recovery from the coronavirus pandemic. The Fund's benchmark, the South African General Equity Peer Group average, returned 1.3% for the period. The Fund's zero exposure to mining stocks accounts for the difference in relative performance. The Fund's SA assets fell 1.2% over the period, detracting 1% from returns. Offshore assets contributed 1% to total fund performance. Major domestic contributors included Spar, which rose 10.5%; Cashbuild, up 44.4% and FirstRand, which gained 8.3% over the period. Major detractors included British American Tobacco, down 8.4% and Adcock Ingram, which lost 19.2% over the quarter.

The Fund's offshore exposure stood at 29% at quarter end. The Fund's offshore securities as a group rose 5.5% in Rands and 9.1% in US Dollars over the period. Key positive contributors in the offshore portion (in US\$) were Nestle, rising 8%; Unilever, up 14.3% and TJX, gaining 10.1%. The detractors were Abbvie, down 9.7% and Glaxosmithkline, down 6.1% in US\$ over the quarter.

The Fund has a 5.5% allocation to property stocks (local and offshore) which fell 5% during the quarter. The Fund made a new investment in select longer dated South African Government Bonds, ending the quarter with a 2.5% position. We believe these bonds to be attractively valued with our positions yielding over 11% on average.

We estimate the gross forward yield on the Fund to be an *abnormally depressed* 4.3%. Given the significant degree of uncertainty surrounding the current coronavirus pandemic, and its effect on companies globally, we do caution that there is significant forecast risk around this estimate. Growth in distributions over the next 12 months is likely to be significantly lower than the prior 12 months due to many companies choosing to *temporarily withhold* dividend payments, as well as a result of depressed profits due to the global recession. We believe distribution levels will be back to the June 2020 levels by end 2022 latest, with a significant growth rebound expected in December 2021.

Given the underlying strength of the businesses in which we choose to invest and the significant weighting of the Fund in companies providing goods of a defensive nature we are confident Fund distributions will remain attractive relative to the general equity market.

Note: all yields are quoted on a gross basis before deducting local and offshore withholding taxes.

#### Portfolio positioning

The coronavirus pandemic is continuing to precipitate significant change globally. Existing trends, such as the use of technology, have been accelerated. Additionally, new attitudes, behaviours, policies and economic realities are evolving. However, the extent of such changes is proving to be less drastic than originally estimated. Regardless, the role of government in economic and social affairs is becoming larger, a trend whose impact should not be underestimated.

Given the uncertainty prevailing at present we have more confidence than ever in our core philosophy of investing predominantly in attractively valued quality companies. Over a full market cycle, we believe this approach to be best suited to delivering the Fund's stated

objective.

We focus on investing in companies with predictable cash flows and the ability to pay sustainable and growing dividends well into the future, notwithstanding the current temporary disruption. Which companies will fit this criteria in the future is constantly being evaluated. Existing business models are being disrupted and how lasting the coronavirus induced changes will prove to be is uncertain. As such we are cautious of knee jerk reactions, chasing fads as well as complacency. Decisions enacted in such frames of mind most often turn out to be very damaging to long term returns. Encouragingly many emerging trends are likely to result in less intensive asset use, boosting cash generation, which in turn is likely to fuel dividend growth.

Cardinally, we believe prudent long term equity investing is best implemented with a solid and significant core of businesses *less affected by change*. As such, we ensure we own a significant weighting in such companies, while remaining disciplined on the price paid.

Currently 5.6% of the portfolio is held in cash, down from 11% at last quarter end. We have continued to build positions in attractively priced equities, mostly domestically listed. A new position was added in Advtech, an education and resourcing company. This company has proven itself to be very resilient in tough economic times thanks to strong brand offerings in private education, such as Crawford Schools and Varsity College. We sold out of automotive group Motus Holdings in favour of Combined Motor Holdings which we believe to be both a higher quality business and more attractively valued.

We remain careful and cautious, as despite significant rebounds in many markets, actual business conditions remain very strained and uncertain. As always, we look to limit downside risk while remaining alert to opportunities. Domestically listed South African biased companies or 'SA Inc.' stocks are still down 30% year to date as a group, still not having meaningfully recovered, unlike most developed market and SA Rand Hedge stocks. We are actively researching opportunities in these stocks as many quality SA Inc. equities are trading significantly below their intrinsic values. We currently have a 58% weighting in quality SA Inc. equities. Valuations do need to be weighed against the backdrop of the material headwinds faced in the local investment environment and economy. As such our contextual value approach remains central in portfolio management actions, as does our balanced approach to risk versus valuation opportunity.

#### Portfolio Managers

Ray Shapiro  
B.Bus.Sc (Finance), PGDA, CA(SA), CFA

Sam Houlie  
CA(SA) & CFA

Piet Viljoen  
B Com (Hons), CFA