Quarterly Report

Counterpoint SCI Dividend Equity Fund

Quarter ending 31 March 2021

This Fund is suitable for investors with a high risk tolerance, seeking income plus capital growth. The Fund focuses on investing in high dividend-paying companies and can invest locally as well as up to 30% offshore. The recommended investment horizon is seven years or more.

Performance Table

Annualised Performance	Fund	Benchmark
3 Months	7.1%	12.3%
1 Year	20.0%	48.5%
3 Years	0.2%	5.7%
5 Years	2.2%	4.6%
Since Inception (December 2012)	5.5%	7.2%

Fund Details	
Benchmark	*ASISA Category Average*
ASISA Category	*SA Equity General*
Portfolio Managers	*Raymond Shapiro* *Andrew Dowse*

Portfolio Approach

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 (7 years 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 with less volatility 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

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.

Counterpoint SCI Dividend Equity Fund

Quarter ending 31 March 2021

Top 10 Holdings (%)	
SPAR Group	5.3
British American Tobacco	5.2
Firstrand Limited	4.3
JSE Limited	3.7
Transaction Capital	3.5
Storage Property Reit Ltd	3.0
Hudaco Industries Ltd	2.5
Mr Price Group Limited	2.4
RMI Holdings	2.4
Quilter PLC	2.4
Total	**34.7**

Asset Allocation (%)	
SA Equity	62.4
SA Property	4.1
SA Pref Shares	0.2
SA Bonds	2.5
SA Cash	4.9
Global Equity	22.4
Global Real Estate	1.6
Global Cash	1.9
Total	

Performance Review

The Fund posted 7.1% return for the quarter driven by a continued return to global normalcy thanks to the ongoing distribution of Covid-19 vaccines. The Fund's benchmark, the South African General Equity Peer Group average, returned 11.9% for the period with the JSE All Share Index returning 12.9% for the quarter.

The Fund's zero exposure to Naspers fully accounts for the difference in performance relative to the Index. The Fund does not have exposure to this counter due to the company having no firm dividend policy nor the prospect of implementing one in the near future.

The Fund's South African listed assets rose 7.4% over the period, contributing 5.5% to returns. Offshore assets added 1.6% to returns, with little change in the US Dollar/Rand exchange rate. Major domestic equity contributors included Transaction Capital, which rose 24.4%; Cashbuild, up 32.1% and Hudaco Industries, which gained 25.6% over the period. Major detractors included Anheuser-Busch Inbev, down 10.3% and Rand Merchant Investments, which lost 4.4% over the quarter.

The Fund's direct offshore exposure stood at 25.8% at quarter end. The Fund's offshore assets as a group rose 5.8% in rands and 5.3% in US dollars over the period. Key positive equity contributors in the offshore portion (in US dollars) were Deere & Co. rising 39.4%; National Bank of Canada, up 21.9% and Investor AB, gaining 14.8%. Principal detractors were Unilever, down 6.6% and Nestle, down 5.3% in US dollars over the quarter.

The Fund has a 6.1% allocation to property stocks (local and offshore) which gained 3.7% during the quarter. The Fund also has a position in select longer-dated South African Government Bonds, ending the quarter with a 2.5% weight. These bonds lost 1.3% over the quarter. We believe longer-dated SA Government bonds currently offer attractive value.

Management Actions

During the period we made a new investment in Shoprite (1.5% weight at quarter end). Following a few tough years, driven by poor results and increasing debt from its African operations, Shoprite has mounted a strong operational and strategic turnaround, leading to vastly improved cash flows and a resultant rapid reduction in debt. A renewed focus on its SA operations, evidenced by the success of the Checkers60 initiative, is bearing fruit for shareholders. We look to add to our position at suitable prices.

We continued to build positions in attractively priced quality equities during the period, mostly domestically-listed, adding to positions in the JSE Ltd., Transaction Capital and PSG Konsult, among others. We also added to certain well-priced offshore stocks such as GlaxoSmithKline, Roche and Relx.

During the period we sold out of our position in Distell at a very healthy profit. We believe the counter is now pricing in an overly rosy future. We also materially sold down our position in Cashbuild following a very strong run after which the valuation had become stretched, offering limited margin for error.

Counterpoint SCI Dividend Equity Fund

Quarter ending 31 March 2021

Portfolio Stratety

The ongoing worldwide distribution of Covid-19 vaccines continued to fuel a recovery in global markets over the quarter, especially in cyclical sectors as well as in Real Estate. Technology-related equities lagged as did Staples (excl. Tobacco) and Health Care. The more rapid rollout of vaccines in the US vs. the rest of the world fuelled outperformance by US markets. Markets globally continue to benefit from accommodative monetary policy and stimulus, with no US rate hikes expected before 2023. A commitment by governments globally to provide sizeable fiscal stimulus is further driving markets and commodity prices - most notably, US President Joe Biden's ambitious $1.9 trillion infrastructure programme, announced in March. Some experts estimate this plan could add 2 percentage points to US GDP in 2021. Although the yield on US 10-year Treasury bonds has risen by 82 basis points since the beginning of the year, global developed market bond yields are still low in absolute terms. However, should policies result in rising inflation, asset prices could come under pressure. Few companies can fully pass on significant input price increases and would require a commensurate increase in real growth to offset margin squeeze. Cognizant of these risks, we seek to invest in quality companies, possessing both pricing power and attractive real growth prospects.

With the ramp-up in distribution of Covid-19 vaccines, a return to a more normal environment seems only a matter of time. While a number of global stocks are pricing in such a scenario, we believe there is still recovery potential in certain stocks and sectors. Specifically, we believe SA Inc stocks, in which the Fund has a significant weight, have attractive potential to further recover. The rebound in global economies will inevitably filter down to South Africa - especially a recovery driven by commodity-intensive infrastructure spend. Additionally, there is a steady move to dealing with corruption and improving relations and co-ordination between business and government.

Despite this, 'SA Inc.' equities still trade on depressed earnings on undemanding multiples. This setup bodes well for future returns and continues to present an attractive opportunity.
We maintain a balanced approach to risk and continue to hold a material position in direct offshore equites and select rand hedge stocks, the most important being British America Tobacco. We are still cognisant of SA specific risks, the threat of mutant virus strains, as well as elevated debt levels globally.

The Covid-19 crisis has focused companies to become more considered in their allocation of capital. We believe this will lead to a new era in improved capital allocation, cash generation and increased returns to shareholders. This bodes well for dividend-paying stocks. Encouragingly many companies we own are also moving toward less intensive asset use, boosting cash generation, which in turn fuels dividend growth.

We maintain confidence in our core philosophy of investing in attractively valued quality companies. We continue to focus on investing in companies with predictable cash flows and the ability to pay sustainable and growing dividends well into the future. Our broader view is as a return to normality gains steam and with global yields still at relatively low levels, dividend equities present a very attractive alternative to investors seeking income. This has the potential to drive a step change in the valuations of dividend stocks.

We forecast the 12-month forward fund distribution yield to be circa 4%, net of all investment charges. We see this yield as attractive relative to current money market rates, but caution a high degree of forecast risk.

Growth in Fund distributions for 2020 was down 25% due to many companies choosing to temporarily withhold dividend payments, as well as a result of depressed profits due to the global pandemic and resultant recession. We believe distribution growth will strongly rebound in 2021 as company earnings recover to more normalized levels.

Raymond Shapiro
Portfolio Manager

Counterpoint SCI Dividend Equity Fund

Quarter ending 31 March 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).