Quarterly Report

Counterpoint SCI Dividend Equity Fund

Quarter ending 31 December 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	7.7%	9.3%
1 Year	25.9%	26.7%
3 Years	6.2%	11.7%
5 Years	5.4%	7.4%
Since Inception (December 2012)	7.0%	8.0%

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

Performance Review

The Fund posted a 7.7% return for the quarter compared to its benchmark, the South African General Equity Peer Group average, which was up 9.3%. The JSE Capped SWIX All Share Index was up 8.7% over the quarter, with the JSE All Share Index advancing 15% over the period.

For the calendar year 2021, the Fund was up a healthy 25.9%, with the Peer Group average 26.7% higher. The JSE Capped SWIX ALSI was up 27.1% and the JSE All Share Index finished 28.2% higher for 2021. Fund returns for the year were largely driven by its exposure to domestically driven SA Inc. stocks and to a lesser extent by its direct offshore equities. Comparatively, market returns were largely driven by resource counters, with help from South African exposed companies, as well as MTN.

The Fund's absolute and relative returns over the quarter were largely driven by its exposure to offshore listed equities, which were up 17.7% in rands over the quarter (+11% in USD, versus the MSCI World Index +7.8%). The diversification benefits of the Fund's offshore allocation were again illustrated both during the year and quarter. The Fund's direct offshore exposure stood at 28.4% at quarter end.

Locally listed rand hedge stocks such as British American Tobacco and Anglo American also aided returns over the period. Domestically driven SA Inc. equities, in which the Fund has more than 50% exposure, were up 3.8% as a group for the quarter, dragged by higher fuel prices, rising input prices and a November rate hike, among other SA specific headwinds.

The Fund's relative returns were dampened by its underweight exposure to the mining sector and not having exposure to Richemont and MTN, all strong performers over the quarter.

Major domestic equity contributors included Shoprite, up 16.9%, PSG Konsult, which rose 21.9%, and British American Tobacco, which gained 12.7% over the period. Notable detractors included Spar, down 12.1%, and Woolworths, which fell 12.2% over the quarter.

The key positive equity contributors in the offshore portion (in US$) were Union Pacific, rising 29.2%, Nestle, up 16.8% and TJX, gaining 15.5% over the period. Detractors were very minor but included Johnson Matthey, down 16.9% and Ventas, down 6.6% in US$ over the quarter.

COUNTERPOINT ASSET MANAGEMENT

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Top 10 Holdings (%)	
British American Tobacco	5.0
Firstrand Limited	4.7
Shoprite	3.6
JSE Limited	3.4
Storage Property	3.3
Anglo American	3.1
RSA Govt Bond R2040	3.1
Transaction Capital	2.9
Spar Group	2.7
Ninety One Plc	2.6
Total	**34.3**

Asset Allocation (%)	
SA Equity	60.5
Global Equity	27.2
SA Bonds	4.9
SA Property	4.2
SA Preference Share	1.4
SA Cash	0.5
Global Cash	0.3
Global Property	0.9
Total	**100.0**

The Fund has a 5.1% allocation to property stocks (local and offshore) which gained 12.1% over the quarter. The Fund also has a position in select longer-dated South African Government Bonds, ending the quarter with a 4.9% weight. These bonds rose 4% over the period.

Management Actions

During the period we materially reduced our holding in Spar amid challenges and execution risks in their Polish operations, as well as the risks surrounding their wide scale and costly SAP implementation.

We sold out of positions in Wells Fargo and Johnson Matthey in our offshore listed portion as we find better risk versus reward opportunities elsewhere in global markets.

Portfolio Strategy

Despite the numerous headwinds faced by the South African economy, domestically exposed equities have proved resilient, shaking off the effects of the July riots, a rate hike in November and intermittent loadshedding, among other challenges. This is testament to the low expectations priced into SA Inc. stocks and the consistent upside earnings surprises that these companies have been delivering. Ironically, disappointments in SA Inc. companies' results seem to be more driven by their offshore operations that their SA businesses.

We continue to believe that SA Inc. stocks, in which the Fund has a significant weight, present an opportunity, especially as the world continues to open up and recover from the COVID-19 pandemic. South Africa tends to lag global developments and market recoveries and we believe, given the low base and undemanding relative and absolute valuations of SA Inc. equities, that the next few years will prove to be significantly better than the previous few years for SA companies' profits and returns.

However, we are acutely aware and cautious about the risks of further loadshedding, the ANC Elective conference toward the latter part of 2022 as well as the spectre of rising inflation, coupled with interest rate hikes. As such we are maintaining a highly selective stock picking approach to SA Inc. equities and a conscious risk balanced approach to managing the Fund.

We aim to sensibly diversify across industries and geographies as far as the Fund mandate allows. As such, we continue to hold a material position in direct offshore equites and select rand-hedge stocks, the most important being British America Tobacco.

The threat of sustained global inflation, which is looking increasingly probable, accompanied by significant rate rises, is still the most significant risk to global markets. Cognisant of this risk we seek to invest in companies possessing both pricing power and attractive real growth prospects.

While a number of global markets and sectors have priced in a global recovery (and more) and appear to trade at elevated levels, we maintain confidence in our approach of focusing on investing in carefully chosen and attractively valued, quality businesses. We seek to hold such businesses for appreciable periods to capture the full benefit of compounding. We look to invest in companies with predictable cash flows and the ability to pay sustainable and growing dividends well into the future.

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Our view is that as a return to normality gains steam, and with global yields still at low levels (although rising), dividend equities present an attractive alternative for investors seeking income. This bodes well for dividend-paying stocks, which we believe still present attractive relative value globally. This set up could precipitate a step change up in the valuations of dividend stocks worldwide, fuelling attractive capital returns in addition to income returns, which are recovering off a low base.

Raymond Shapiro
Portfolio Manager

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