

# Sanlam Artificial Intelligence Fund

## Monthly Commentary

### April 2022

#### Market/macro backdrop

April proved to be a difficult month for global equities as sentiment was affected by the war in Ukraine, Covid lockdowns in China, high levels of inflation in a number of developed economies and uncertainty about the timing and magnitude of interest rate rises in the US. The MSCI All-Country World index posted a US dollar total return of -8.0%. At the sector level, technology and related areas struggled, with the NASDAQ Composite posting a dollar return of -13.2%.

Stylistically, growth had another difficult month with the MSCI World Growth index producing a USD performance of -11.9%. Once again, commodities were the standout asset class at the global level as the war in Ukraine continued to disrupt the world's energy and food supplies. However, fixed income offered no respite for investors as the Barclays Global Aggregate index produced a US dollar total return performance of -5.5% (source: Bloomberg and J.P. Morgan).

#### Performance vs sector/benchmark

The Fund produced a performance of -7.9% in April 2022 (source: Morningstar - GBP Z Acc share class). The Fund is not managed against a benchmark or specific sector or index.

|                    | Inception | 1mth | 6mth  | 1yr  | 3yrs | 5yrs | Since Inception |
|--------------------|-----------|------|-------|------|------|------|-----------------|
| B Accumulation GBP | 23/06/17  | -7.9 | -19.9 | -8.5 | 17.4 |      | 19.3            |
| Z Accumulation GBP | 23/06/17  | -7.9 | -19.8 | -8.2 | 17.7 |      | 19.6            |

  

| 12 Months to       | Apr-22 | Apr-21 | Apr-20 | Apr-19 | Apr-18 |
|--------------------|--------|--------|--------|--------|--------|
| B Accumulation GBP | -8.5   | 46.3   | 20.8   | 23.3   |        |
| Z Accumulation GBP | -8.2   | 46.8   | 21.1   | 23.7   |        |

- Performance beyond one year is annualised.
- Past performance is not an indicator of future performance.**
- Source: Sanlam, Morningstar and Lipper as at 30/04/2022. Figures for periods longer than 12 months are annualized. NAV to NAV figures are used. Net of charges, assumes net income reinvested.

#### Positive contributors (3 max)

[Western Digital](#), [JD.com](#), [UnitedHealth](#)

#### Negative contributors (3 max)

[Nvidia](#), [Alphabet](#), [Tesla](#)

#### Significant portfolio changes

April saw the Fund continuing to position build in defence and energy. We believe these areas will be long-term beneficiaries of the war in Ukraine. AI has a key role to play in global security through the use of artificially intelligent surveillance, drones and other technologies, including unmanned aircraft. In energy,

### Significant portfolio changes (cont.)

AI is helping to improve recovery rates from oil and gas fields and more broadly there is much AI can do to ensure that energy is extracted and then utilised as efficiently as possible. This will be critically important as most of the Western world begins to disconnect from Russian oil & gas. In financials, we have started position building in an Australian bank which is using AI to deliver personalisation for its customers (using adaptive technology). It is also working to automate lending decisions in mortgages through the use of AI and machine learning.

In technology, we reduced our exposure to Alphabet (Google) ahead of its results and we also reduced Microsoft. These remain important positions within the Fund; in terms of the breadth and depth of its AI expertise, Alphabet has few peers at a global level. However, we are conscious that both Alphabet and Microsoft are widely held by growth investors in general (not just by AI investors) and we felt that a reduction in our aggregate exposure here would be prudent given the number of active investors who have bought mega-cap tech as a refuge from the recent market volatility.

### Corporate/team highlights

We are delighted to announce that February saw the launch of the [Sanlam Asia Pacific Artificial Intelligence Fund](#), a regional version of our global AI strategy, managed by Giles Worthington and Chris Ford. Please see our website or feel free to contact us for further details.

### Outlook

In the short term, global equity markets are likely to remain volatile as they digest the impact of war, inflation, ongoing supply chain disruption, higher risk-free rates and fears that central bank action could tip the global economy into recession. Whilst the duration and eventual outcome of the war remains difficult to judge, supply chain disruption, inflation and the likelihood of higher interest rates are at least known risks, so it is reasonable to expect that they will do less damage to stock markets going forward. The commodity price surge has undoubtedly been very painful for a number of economies but increasingly it looks like a historic one-off shock, rather than the beginning of a new 'super cycle' for commodities. The cost of living crisis is undoubtedly severe and problematic for the consumer sectors but we take some comfort from the fact that many companies are cash rich and this can be used to fund dividends, buybacks and acquisitions, irrespective of what may happen on the macroeconomic front. Indeed, Goldman estimates that the value of buybacks amongst the S&P 500 names will hit \$1 trillion (a record) in 2022, an increase of 12% on 2021. We also take comfort from the fact that barring another energy shock, inflation is likely to be either at or close to its peak. This should begin to provide a more constructive backdrop for risk assets as we move through 2022.

For AI as a theme, we retain an extremely positive outlook; 2022 will inevitably see further advances in areas like data science, machine learning and 'seeing' machines; for example, DeepMind has already taught some of its machines to write computer software in C++ and Python and when tested in programming competitions it already delivers a similar level of performance to human programmers. The geopolitical backdrop also undeniably provides a tailwind for AI; in defence, it can be used across a vast array of applications including military decision making, autonomous platforms, computer network defence, sensing, logistics, security and policing and streamlining administration. AI is also being utilised by the Royal Navy and NATO to facilitate early detection of missile threats (including supersonic missiles) and it can even suggest a range of recommended options to counter the threat.

## Important Information

The Fund may invest in shares of companies listed on stock exchanges in the United Kingdom, and outside the United Kingdom, exchange rate fluctuations may cause the value of investments to go down as well as up. Investing in companies based in emerging markets may involve additional risks due to greater political, economic, regulatory risks, among other factors. The Fund may invest in derivatives for the purposes of efficient portfolio management and hedging.

The value of this portfolio is subject to fluctuation and past performance is not necessarily a guide to future performance. The performance is calculated for the portfolio and the actual individual investor performance will differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. All terms exclude costs. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. Do remember that the value of participatory interests or the investment and the income generated from them may go down as well as up and is not guaranteed, therefore, you may not get back the amount originally invested and potentially risk total loss of capital. Therefore, the Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The Manager has the right to close any Portfolios to new investors to manage them more efficiently in accordance with their mandates. Collective Investment Schemes are traded at ruling prices and can engage in borrowing and scrip lending. Collective Investment Schemes (CIS) are generally medium to long term investments. A schedule of fees and charges and maximum commissions is available on request free of charge from the Authorised Corporate Director, the Investment Manager or at [www.sanlam.co.uk](http://www.sanlam.co.uk). This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy.

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Smith and Williamson Investment Funds plc, a company incorporated with limited liability as an open-ended umbrella investment company with variable capital and segregated liability between sub-funds under the laws of Ireland and regulated by the Central Bank of Ireland. The Fund is managed by Smith & Williamson Investment Management (Ireland) Limited, Trinity Point, 10/11 Leinster Street South, Dublin 2, Ireland, Tel + 353 1 612 6476, Fax + 353 1 512 5362 which is authorised by the Central Bank of Ireland, as a UCITS Management Company. Smith & Williamson Investment Management (Ireland) has appointed Sanlam Investments UK Ltd as Investment Manager to this Fund.

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The fund price is calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income and expense accruals. Trail commission and incentives may be paid and are for the account of the manager. Performance figures quoted are from Sanlam and are shown net of fees. Performance figures for periods longer than 12 months are annualized. NAV to NAV figures are used. Calculations are based on a lump sum investment.

Please note that all Sanlam Funds carry some degree of risks which may have an adverse effect on the future value of your investment. Any offering is made only pursuant to the relevant offering document, together with the current financial statements of the relevant fund, and the relevant subscription/application forms, all of which must be read in their entirety together with the Fund prospectus and the KIID. All these documents explain different types of specific risks associated with the investment portfolio of each of our products and are available free of charge from the Manager or at [www.sanlam.co.uk](http://www.sanlam.co.uk). No offer to purchase securities will be made or accepted prior to receipt by the offeree of these documents, and the completion of all appropriate documentation. Use or rely on this information at your own risk. Independent professional financial advice should always be sought before making an investment decision as not all investments are suitable for all investors.

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