Sanlam Investments

Sanlam Enterprise Fund

Monthly Commentary

April 2022

Market/macro backdrop

Globally, equities had a very poor April (the MSCI World returned -8.8% in US dollar terms and -3.8% in sterling) but the UK was an outperformer as the MSCI UK posted a total return of 1.0%.

Once again, the energy sector continued to enjoy gains due to the backdrop of elevated oil prices and concerns about the outlook for global oil & gas supplies because of the ongoing war in Ukraine. 'Defensive' sectors, such as healthcare, consumer staples and utilities also performed robustly. However, financials and consumer discretionary struggled as the market continued to worry about the outlook for consumer spending for the remainder of the year and into 2023 as the UK faces its worst 'cost of living' crisis for decades. Globally, fears about tighter monetary policy and higher risk-free rates were a major drag on sentiment in April, and indeed both the BoE and Fed delivered rate hikes in early May as central banks attempt to bring inflation down to a more 'normal' level.

Performance vs sector/benchmark

The Fund produced a performance of -0.84% in April 2022 (C share class – source Morningstar).
The Fund is not managed against a specific sector or benchmark.

	Inception	1mth	6mth	1yr	3yrs	5yrs	Since Inception
A Income GBP	04/04/06	-0.9	-5.5	-2.6	0.3	0.4	5.1

12 Months to	Apr-22	Apr-21	Apr-20	Apr-19	Apr-18
A Income GBP	-2.6	6.9	-3.0	-0.5	1.7

- Performance beyond one year is annualised.
- **Past performance is not an indicator of future performance.**
- Source: Sanlam, Morningstar and Lipper as at 30/04/22. Figures for periods longer than 12 months are annualized. NAV to NAV figures are used. Net of charges.

Positive and negative contributors

April was another frustrating month as once again we generated good levels of alpha in the short book but our longs struggled as stocks with 'growth' characteristics remained out of favour, leaving the Fund in negative total return territory for the month.

In terms of positive contributors, highlights over the month included our long positions in AstraZeneca and Jet2, and a short in an online retailer of white goods and other electrical devices. AstraZeneca beat expectations for Q1 profits and reiterated its forecasts for 2022 as new therapies for cancer and kidney disease offset the decline in Covid-19 vaccine sales. Jet2 has been buoyed by the reopening of economies and pent-up demand for foreign travel; the company said that its on-sale seat capacity for summer 2022 is roughly 14% higher than summer 2019 (i.e. well above pre-Covid levels) with 'encouraging' bookings. The company is 95% hedged for jet fuel for summer 2022 and c.65% hedged for winter 2022/23 which will insulate it from further volatility in energy prices. The electrical retailer had an April to forget as it issued its

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Positive and negative contributors (cont.)

third profit warning in six months. Cash-strapped consumers are cancelling their repair warranties on white goods as they battle soaring energy, fuel and food costs and the company warned this could have a further material impact on its profitability.

Negative contributors over the month included a short in a maker of auto catalysts and our longs in Ashtead and Future plc. Ashtead struggled due to concerns about the deteriorating economic outlook in the US, although pleasingly in late April its peer United Rentals announced record Q1 results and raised its guidance for revenues and adjusted EBITDA for 2022. The auto catalyst maker was buoyed by news that Standard Industries has taken a 5% stake; Standard Industries is a US conglomerate that acquired catalyst maker W.R. Grace & Co last year. Future has continued to enjoy good momentum in digital advertising (as it is a provider of trusted content, making it the partner of choice for advertisers) but the weakening outlook for the UK consumer and the rotation against growth stocks more generally has weighed on the share price.

Significant portfolio changes - buy/sells

April was a relatively busy month for portfolio activity. We started a new position in Spectris, a maker of high-tech equipment, test equipment and software for some of the world's most technically demanding industrial applications. The company is well positioned to profit from a number of long-term structural trends including the onshoring of manufacturing facilities, the need to increase semiconductor capacity, the electrification of vehicles and more broadly the growing necessity to use resources more efficiently and devise new materials to combat the climate challenge.

In the short book, we started positions in two established UK retail banks. Although rising interest rates are set to boost net interest margins, this is now widely expected in forecasts and yet UK banks have historically been very poor at retaining these benefits, especially after the first couple of interest rate increases. Meanwhile, costs are increasing, the mortgage market is getting tougher and banks carry a high degree of sensitivity to broader economic concerns.

In the food retail sector, we started a pair trade, taking a long in Tesco and a short in one of its peers. Tesco has proved itself to be a resilient operator across the economic cycle and has risen to the challenge posed by the discounters. The peer warned in late April that underlying profit would be lower than expected this year due to 'significant external pressures and uncertainties', including inflation and the squeeze on household incomes. It also owns Argos, a non-food format which is facing the biggest challenges right now.

Lastly, we started a short position in a food delivery platform which faces an unpleasant cocktail of ruthless competition, rising labour costs, a consumer income/cost of living squeeze and a fading tailwind from the 'stay at home' trade as economies and overseas travel reopen and the summer holiday season approaches. The company acknowledged the tough outlook in late April when it said it was considering the sale of Grubhub, less than a year after buying it. The firm has since faced a significant shareholder backlash.

Outlook

The UK equity market has had a relatively good start to the year, but in part this reflects the strength of the large-cap energy and commodity stocks that are the natural beneficiaries of the soaring commodity prices that followed the outbreak of war in Ukraine. The short-term outlook for the consumer is undoubtedly very challenging; the Bank of England has already warned that the UK economy will slide into recession this year as higher energy prices push inflation above 10%. However, with the share prices of many mid-cap growth stocks having collapsed so far this year, it feels to us as though the worst-case scenario has already been priced in, rather than the most likely outcome. Many share prices now reflect the likelihood of huge downgrades but this is not a re-run of the financial crisis and those companies with structural drivers and winning market share will offset these cyclical headwinds, leaving their current valuations looking incredibly

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Outlook (cont.)

cheap. We continue to see a positive long-term outlook for leaders in areas such as clean energy and for those companies that can provide meaningful and practical solutions to the sustainability and environmental challenges that we all face.

So, in short, we expect the market volatility to give us good opportunities to add our favoured structural change winners at very attractive levels, but equally, we expect some excellent shorting opportunities as the economic outlook deteriorates and companies across a range of industry sectors struggle to deliver in line with the guidance they gave at the beginning of the year.

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Important Information

Part of the Fund will invest in derivatives such as CFDs, futures and options for investment and efficient portfolio management only. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions. CFDs are used to obtain short exposures to certain underlying securities. Selling securities short runs the risk of losing an amount greater than the amount invested. The Fund may invest in companies based in emerging markets, which may involve additional risks due to greater political, economic, regulatory risks, among other factors.

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. 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. 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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