Sanlam Investments

Sanlam Active UK Fund
Quarterly Update
Q1 2022

Key facts

Fund AuM	£110.4m
Strategy AuM	£110.4m
Number of Holdings	30
Active Share	63.7%
Portfolio Yield*	2.5%
Fund Manager	Andrew Evans
Benchmark	MSCI UK
Fund Launch Date	02 April 2007
Domicile	Ireland
Base Currency	Sterling
Fund Type	OEIC, UCITS
IA Sector	UK All Companies
Morningstar Category	UK Flex-Cap
Dealing Deadline	11:00 (GMT)
Settlement Time	T+3
Valuation Point	Midday (GMT)
Distribution	Semi-Annually

Market recap

The MSCI UK delivered a return of 4.8% for Q1 2022. This compares to -1.7% for the S&P500, and -2.2% for the MSCI World Index. It was a strong quarter of performance for the UK Index in what has been a very difficult period in terms of geopolitics, war, and inflation.

January saw a market rotation out of highly-rated "growth" shares into more traditional "value" names (the UK index has a high weighting to industrial economy companies like energy and mining, which trade at low multiples of earnings). Note that we think the traditional distinction between "growth" and "value" shares is a bit misleading – growth is simply an input into the calculation of what a business is worth.

February saw a flattish performance for the UK Indices, and the dreadful news of Russia starting a war in Ukraine. The MSCI UK Index again outperformed the S&P 500 and MSCI World.

March saw another reversal out of some of the "value" names and back into large-cap 'growthy' tech names. One would have thought a major European war, and further pressures on the supply of commodities and energy (which was a problem even before the invasion), would have pushed the inflation narrative even more to the fore. It seems some of the March rotation was a panicked safety trade out of "value" indices like Europe and into large-cap US stocks, as Europe has a serious energy and war crisis on its doorstep.

Fund Performance

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
A Accumulation GBP	02/04/07	-3.2	-3.2	4.1	3.3	3.4	4.5
MSCI UK		4.8	4.8	19.1	5.0	4.4	4.9

12 Months to	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
A Accumulation GBP	4.1	32.6	-20.2	5.9	1.3
MSCI UK	19.1	20.0	-19.1	7.6	-0.2

- Source: Sanlam, Morningstar and Lipper as at 31/03/2022. Class A net returns are used to illustrate the funds longest track record in the table above. Figures for periods longer than 12 months are annualized. NAV to NAV figures are used. Net of charges, assumes net income reinvested.
- **Past performance is not an indicator of future performance.**
- Portfolio yield is calculated by adding the net dividend amounts for all dividend types that have gone 'ex' over the past 12 months based on the dividend frequency. Performance beyond one year is annualised

Fund review

The fund delivered -3.2% in the quarter, against 4.8% for the benchmark. Sector allocation delivered -3.3% of the relative underperformance, while stock selection drove -4.4%. Most of the underperformance occurred in January. Attribution breakdown is discussed in the next section. It was a disappointing quarter for performance relative to the benchmark.

On the positive side we added three new positions in energy and mining: Glencore, Shell and Conoco Phillips. These businesses look very undervalued, and we are increasingly convinced that the valuations, cash flows and national importance of these businesses are not fully appreciated. We also improved the quality profile of the consumer discretionary holdings, adding a new asset-light royalty company, Hilton Worldwide Holdings, through reducing asset-heavy Whitbread, and reducing the Howden Joinery position. Howden is a fantastic business and a top performer for us over the past few years, but a new kitchen is a fairly discretionary purchase for most people, and the valuation looked toppy for a tough environment. We also sold out of two businesses which are exposed to higher energy costs and higher interest rates (Great Portland Estates and Ibstock).

Risk management as always was important in Q1 – especially around exposures to the weakening UK and global economy. We increased exposure to Becton Dickinson, a very high-quality company which is more resilient than most and which still looks good value. The stock has performed well year to date, up 10% to 22 April.

The fund's portfolio (comprising 30 stocks) is a well diversified but focused basket of higher quality companies across most sectors, with attributes like leading market positions, competitive advantages and strong balance sheets. This should help to mitigate adverse economic scenarios such as we are currently seeing.

Performance attribution

- The fund delivered -3.2% in the quarter, against 4.8% for the benchmark
- Sector Allocation delivered -3.3% relative, while Selection drove -4.4%
    - Underweight to Energy drove –2.1% of the -3.3%
    - Overweight to Consumer Discretionary drove -1.5%
    - On the positive side, underweight to Consumer staples, and the overweight to Materials helped
- Selection:
    - Biggest detractors:
        - Taylor Wimpey (shares fell 23%), Integrafin (shares down 24%), Rightmove (shares down 19%), Howden Joinery (fell 14%), and not owning Shell for the entirety of the quarter
    - Biggest positive attributions:
        - Anglo American (up 36%), Glencore (not held for the full quarter) and Becton Dickinson (up 10%)
        - Not owning Experian, Ashtead, Reckitt or Ferguson, all poor performers. Being underweight Unilever also helped.

Of the YTD detractors, we would not expect significant operational stress at most of them. In fact, trading updates have been very positive. However, given the tougher economic outlook, we are not naïve to the risks on consumer discretionary stocks. To that end, Howden Joinery position has been dramatically reduced (5.3% at end of 2021, down to 2.2% at end of March 2022).

Outlook

Into April, the rotation is on again as money appears to be flowing back out of tech and into "value" names, with the UK index again outperforming global indices month to date. However, major world markets are down again for April (this note is written as at 25 April). With bond yields rising, relentless hawkish comments by the Fed and other central banks, inflation staying high and increasing, and supply of energy

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Outlook (cont.)

and commodities not able to respond after years of underinvestment, it's clear that the global economy is in a very perilous state. This is before you take into account the impact of Russia's war on Ukraine or the Chinese Covid lockdowns.

At times like these, we always find it useful to come back to basics, and heed Ben Graham's saying that "in the short term the market is a voting machine, in the long term it is a weighing machine". This means a laser focus on fundamentals, business quality and valuations. These are the things that determine outcomes in the medium to longer term.

The addition of four new holdings in a quarter was the result of seeing opportunities in the volatility, but also a result of hard work on new names over a number of months. The two positions sold were always non-core and were the result of risk management of exposures.

Sticking to our process and philosophy discipline in turbulent times should enable us to deliver for our unitholders in the medium and longer-term. A good analogy for our approach is that of a successful businessman/businesswoman who evaluates a large number of possible investments across different industries, using a thorough and disciplined approach. They would do due diligence on industries, and companies within that industry. They would look at the market position, cash flows, balance sheets and management, and do proper valuations. They would buy the best companies with the best long term outlooks, at a valuation that made sense. Crucially, having bought a diversified portfolio of these businesses, they would stick with them and hold them for the longer term.

As portfolio manager of the Sanlam Active UK fund, we are no different. Becton Dickinson has leading positions in all its med-tech industries and serves an ageing world population. Taylor Wimpey has a net cash balance sheet and a leading homebuilding position in a structurally undersupplied UK housing market. Glencore has a very diversified portfolio of commodities and is positioned low on the cost curve for the metals that are needed for greening and electrifying the world. Rightmove is the leading UK property portal, earning its revenues, pricing power and incredibly high returns on capital through its market-dominating position and providing incredible utility and service to its estate agent clients. Intercontinental Hotels and Hilton serve a growing middle class worldwide who want to travel, earning a royalty fee on every single night spent in hotels that franchise one of their many market-leading hotel brands.

We remain excited for the long-term return potential from the leading businesses we own in the fund on your behalf.

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Important Information

The Fund invests in equities and equity related securities. These are sensitive to fluctuations in stock market which can change substantially in short periods of time. The Fund's investments are concentrated in a particular country, there is an increased risk of volatility which may result in frequent rises and falls in the Fund's share price.

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 Manager, the Investment Manager or at www.sanlam.co.uk. A full summary of investor rights can also be found online at www.sanlam.com/ireland/Documents/SAMI%20Shareholder%20Engagement%20Policy.pdf. Documents are provided in English.

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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.
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