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Sanlam Artificial Intelligence Fund
Quarterly Update
Q1 2022

Key facts

Fund AuM	£824.7
Number of Holdings	36
Fund Managers	Chris Ford
	Tim Day
Benchmark	None
Fund Launch Date	23/06/2017
Domicile	Ireland
Base Currency	Sterling
Fund Type	OEIC
IA Sector	Specialist
Morningstar Category	Sector Eq. Tech.
Dealing Deadline	17:00 (GMT)
Settlement Time	T+4
Valuation Point	23:59 (GMT)
Distribution	None

Market recap

Global equities had a difficult start to 2022 as they were buffeted by inflation and interest rate concerns and then geopolitical uncertainty following the outbreak of war in Ukraine. For the quarter, the MSCI World index returned -5.2% in US dollars and -2.4% in sterling.

At the sector level, energy was the big winner over the quarter as Brent Crude prices soared to a high of $139 a barrel as fears of ongoing supply disruption in Europe gripped the market. Materials also performed well as there is a growing realisation that the transition from hydrocarbons to renewables will have to accelerate and this should support miners and related areas. However, consumer discretionary performed poorly as a 'cost of living' crisis started to engulf many Western economies.

Stylistically, growth had a very poor quarter with the MSCI World Growth index producing a US dollar total return of -9.6%. Value styles outperformed by a wide margin, losing just -0.5% in USD over the quarter (MSCI World Value index). However, commodities were the real winners, returning 25.6% over Q1 (Bloomberg Commodity Index).

Fund review

Over the quarter the Sanlam Artificial Intelligence Fund produced a performance of -10.1% (B class) and -10.1% for the Z class in GBP (source: Morningstar). The Fund is not managed against a specific index or sector. Over the last 12 months, the Fund has produced a performance of 4.7% (B Class GBP) and 5.0% (Z Class GBP).

In terms of our positioning, we maintained our relatively low-turnover, high-conviction investment approach, but made some changes in our portfolio holdings at the security level. These are detailed below.

In China we added a position in JD.com in mid-January; China's big tech names (and especially the ADRs) appear oversold due to ongoing concerns relating to CCP oversight risk. One notable deletion in January was Netflix, which we sold after its Q4 results. We had expected the slowdown in

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Fund review (cont.)

subscriber growth, but margin guidance was troubling and given that there is less market share available to be donated by traditional cable providers, we are concerned that the SVOD market could become a zero-sum game. In the middle of the quarter, we sold our position in ING, which like many European banks has some exposure to Russia. We still believe that there is a significant amount of capital that ING could return to shareholders over the next two years, however, given the current environment we were prudent and sold the holding. In China, we added to Ping An as regulatory headwinds there are beginning to fade.

In March, we started position building in defence and oil services; we will provide more information in due course.

Fund performance

12 Months to	QTR	1yr	3yrs	5yrs	Since Inception
B Accumulation GBP	-10.1	4.7	22.2	0.0	21.7
Z Accumulation GBP	-10.1	5.0	22.6	0.0	22.1

12 Months to	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
B Accumulation GBP	4.7	58.5	10.0	22.6	
Z Accumulation GBP	5.0	59.0	10.4	23.0	

- Performance beyond one year is annualised.
- **Past performance is not an indicator of future performance.**
- Source: Sanlam, Morningstar and Lipper as at 31/03/2022. Figures for periods longer than 12 months are annualized. NAV to NAV figures are used. Net of charges, assumes net income reinvested.

Performance contribution analysis

Looking at the stock level data over Q1, the Fund benefited from its holdings in Deere & Co, Zendesk and UnitedHealth. As we have detailed in previous reports, Deere is a world leader in the deployment of AI and automation across the agricultural sector which can not only alleviate rural labour shortages but also bring significant boosts to productivity and crop yields. Given that Ukraine is known as 'the breadbasket of Europe' and that wheat supplies from Ukraine are likely to be disrupted for the foreseeable future, we believe that there will be significant demand for products which enable higher rates of food productivity. Zendesk performed strongly in February as it reported encouraging earnings, management revealed it had received an unsolicited takeover approach from a private equity firm, and shareholders rejected a takeover (of Momentive, which owns SurveyMonkey) which had proved unpopular with the company's investor base.

Laggards over the quarter included our positions in Netflix (which we exited in Q1), Keyence and Snowflake. As we have discussed above, we found NFLX's margin guidance troubling, even though we were prepared for the slowdown in subscriber growth. Taking a longer-term view, it seems likely that it will have to invest more and more in the medium term to maintain its position. As we could no longer stand behind our FCF expectations for the coming years, we decided to exit the position. Japan's Keyence unveiled good revenue growth for its fiscal third quarter but concerns over global component shortages have weighed on the share price. One of the consequences of the war in Ukraine is that overseas investors in Japan have indiscriminately sold their 'foreign' holdings and this has acted as a further drag on the shares. Snowflake delivered a revenue beat but guidance for the next quarter and full year was weaker than the Street had expected. More generally, the stock (like many others) was caught up in the growth to value rotation that characterised the first quarter.

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Outlook

The short-term direction of equity markets is likely to be dictated by the war in Ukraine and its knock-on effects. It is clear that the war in Ukraine is already a major humanitarian disaster, but its economic effects have started to be felt elsewhere.

Our own take on the war in Ukraine is that Putin is looking to reinstate Ukraine's border with Russia as it stood around the time of the Polish-Lithuanian Commonwealth at the beginning of the 17th Century. Putin may very well be successful in doing this. If he does, the West cannot simply remove sanctions given the unlawful nature of the military action and bombing of civilians. As a result, we anticipate a sustained period of heightened political uncertainty throughout Europe and the rest of the world. Energy prices will remain higher for longer, with deleterious effects on living standards in countries which are net importers of energy. Defence spending will also have to rise, reversing the steady decline that had been seen since the end of the Cold War. The risk of a Trump 2.0 presidency means that Europe will need to move quickly to improve its defensive capabilities and we have already seen a robust response from Germany on this front. China will be watching events closely and must tread a fine line between invoking the wrath of the West whilst maintaining close relations with Russia. If China can achieve this diplomatic feat, it stands much to gain from the current conflict.

In terms of the longer-term outlook for AI as an investment theme, we remain highly constructive: we don't see any evidence that levels of adoption or engagement with AI have paused; quite the opposite in fact. Baidu, a company in which we invest, recently flagged some of the many opportunities in AI and these include AI and vaccine development, fully automated taxis and the rollout of robotaxis, applied natural language processing, quantum computing, and the lunch of AI-specific semiconductors designed for particular tasks such as deep learning. From a portfolio perspective, the growth-to-value rotation has allowed us to go up in terms of quality as prior to the rotation the likes of Shopify were simply too expensive for us to consider.

Recent geopolitical events have renewed interest in the role played by AI platforms in the energy sector, for example in its use to better understand complex geological structures that inform the way in which oil and gas wells are drilled. The use of AI in defence systems is well proven, and the importance of cyber security has perhaps never been better made as at the current time. When confronted with the pandemic, the world turned to AI platforms as a means by which to address the most pressing issue of the moment – at that time, to help to develop vaccines. The issues confronting the world are somewhat different today. We can see that AI is playing an important role in addressing them.

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Important Information

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.

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