

Sanlam FOUR US Dividend Fund

Q4 2018 | Quarterly newsletter

Market recap

US markets fell substantially in the fourth quarter, losing almost 14%. This was the worst quarter since Q3 2011 when markets dropped by the same amount and resulted in the first down year since the financial crisis. Prior to this, markets were up about 10% for the year, implying a moderate decline in the mid-single digits for the full year. The quarter was characterised by the trade war and tariffs rhetoric between the US and China.

From a style perspective, value outperformed the markets in the correction of the fourth quarter following a long streak of quarterly underperformances but still fell by about 12%. Growth corrected by 16% over the quarter. For the year, however, value had a second consecutive difficult year, leading the markets on the downside - a rare occurrence. Value lost about 9% in 2018, while growth indices were down only fractionally. The 10-year treasury yields fell from just above 3% to around 2.7% over the quarter. The US dollar continued to strengthen on the margin.

Fund review

The fund outperformed the markets by more than 3% in the quarter, falling just below 11%. It also outperformed value benchmarks in the process by about 1% over this period. For the year the fund fell more than the markets, driven completely by style headwinds, but finished ahead of its style for the fourth consecutive year. It also outpaced its peer group in the fourth quarter by about 2%.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B Accumulation USD	17/12/14	-10.8	-7.8	-7.8	9.7	n/a	7.8
MSCI North America		-13.9	-5.7	-5.7	8.3	n/a	6.5
A Accumulation USD	20/05/15	-11.0	-8.5	-8.5	8.9	n/a	7.2
MSCI North America		-13.9	-5.7	-5.7	8.3	n/a	5.5
A Accumulation GBP	30/12/14	-8.9	-2.9	-2.9	14.6	n/a	11.9
MSCI North America		-11.8	0.1	0.1	13.7	n/a	11.1

Performance beyond one year is annualised

12 Months to	Dec-18	Dec-17	Dec-16	Dec-15	Dec-14
B Accumulation USD	-7.8	16.8	22.7	0.2	-
MSCI North America	-5.7	20.9	11.6	-0.9	-
A Accumulation USD	-8.5	16.0	21.9	-	-
MSCI North America	-5.7	20.9	11.6	-	-
A Accumulation GBP	-2.9	5.6	46.7	5.1	-
MSCI North America	0.1	10.4	33.1	4.8	-

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 31/12//2018.

Key facts

Fund AuM	\$304.5m
Strategy AuM	\$311.6m
Number of Holdings	60
Active Share	95.5%
Portfolio Yield	3.7%
Fund Manager	Adour Sarkissian
Benchmark	MSCI North America
Fund Launch Date	17 December 2014
Domicile	Ireland
Base Currency	US Dollar
Fund Type	OEIC, UCITS V
IA Sector	North America
Morningstar Category	US Large-Cap Value
Dealing Deadline	14:00 (GMT)
Settlement Time	T+3
Valuation Point	23:59 (GMT)
Distribution	Quarterly

Performance attribution

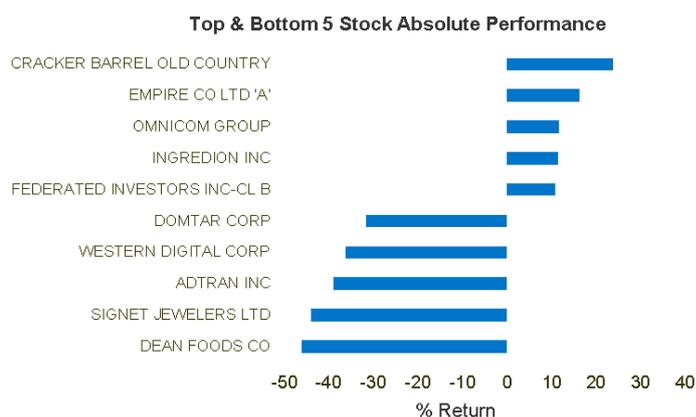
The fund outperformed the markets by over 3% over the quarter, largely thanks to sector allocation as the style returned to favour. Stock selection also added significant value. This follows numerous quarters of negative sector allocation (since the start of 2017) as the style was a heavy headwind.

The large overweight in utilities, coupled with the underweight in information technology, drove the alpha generation in sector allocation. The underweight in healthcare, however, hurt considerably as the sector rose. Most other sectors added good value.

Stock selection was solid during the period with energy, the newly formed communications services and financials sectors being particularly strong. It was weak in materials as some of our holdings fell along with the price of commodities, and in consumer discretionary as a few retail names had a bad festive season.

The best stock pick came from consumer discretionary with restaurant chain Cracker Barrel delivering outpacing expectations. Omnicom was another notable winner as the wall of worry surrounding the advertising agency business model slowly receded over the quarter.

On the negative side, paper producer Domtar fell as the price of the commodity went into a significant correction.



Aided by the strengthening US dollar, the Canadian currency underperformed over the quarter, depreciating by about 3%. This resulted in our currency exposure detracting around 30bps from alpha generation. Year-to-date currency exposure was a 55bps drag. It remains unhedged.

Source: Bloomberg as at 31/12/2018.

Outlook

This is the first down year for US markets since the 2008 financial crisis. The decline was small in the mid-single digits, but markets corrected by about 15% from their peak in September. This has reduced the market's valuation from about 22 times trailing earnings to about 17 times.

The portfolio, in the meantime, remains a highly attractive way to get involved in US equities. At about 10.5 times earnings, the fund offers around 40% discount to the markets. On a price-to-sales basis the discount is even larger at about 65%, down from 70% at the end of the third quarter.

The main story of the year, from our perspective, remains the continuous underperformance of value against growth in 2018. This was the second year of large underperformance in a row, in a down year for the market – a rare occurrence. Over longer five-year or ten-year periods, value is significantly lagging growth. We believe this bodes very well for the style in the intermediate to long term. So while no one we know can predict how much longer and wider this gap can go, the fourth quarter displayed characteristics of an inflection and the next cycle may well prove to be propitious for value investing over growth.

Despite achieving strong results since launch and finishing among the best of its Morningstar US Value peer group, the fund remains firmly anchored in value territory. It also provides one of the lowest risk products in the peer group. The portfolio is anchored in lower risk territory versus the markets and peer group, providing stronger downside protection.

Finally, the portfolio currently provides a high and attractive stream of income to equity investors. We believe the fund offers the best risk-reward exposure to US equities currently and continue to focus all our efforts on identifying, analysing and investing in undervalued North American equities with strong financial profiles and providing the best risk-reward for US equity investors.

Source: Bloomberg as at 31/12/2018.

Contact us

Liz Adnitt
Sales Director

+44 (0) 20 3116 4071
Liz.Adnitt@Sanlam.co.uk

Alexandra Dacres-Hogg
Sales Manager

+44 (0) 20 3116 4041
Alexandra.Dacreshogg@Sanlam.co.uk

Sanlam Investments
Monument Place
24 Monument Street
London
EC3R 8AJ

Important Information

The Fund invests geographically in a narrow range, 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.ie.

Issued and approved by Sanlam Investments. Sanlam Investments is the trading name for our two Financial Conduct Authority (FCA) regulated entities: Sanlam FOUR Investments UK Limited (FRN 459237), having its registered office at 1 Ely Place, London EC1N 6RY and Sanlam Private Investments (UK) Ltd (FRN 122588) having its registered office at 16 South Park, Sevenoaks, Kent, TN13 1AN.

The Fund is a sub-fund of the Sanlam Universal 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 authorised by the Central Bank. The Fund is managed by Sanlam Asset Management (Ireland) Limited, Beech House, Beech Hill Road, Dublin 4, Ireland, Tel + 353 1 205 3510, Fax + 353 1 205 3521 which is authorised by the Central Bank of Ireland, as a UCITS Management Company and Alternative Investment Fund Manager, and is licensed as a Financial Service Provider in terms of Section 8 of the South African FAIS Act of 2002. Sanlam Asset Management is a registered business name of Sanlam Asset Management (Ireland) Limited. Sanlam Asset Management has appointed Sanlam FOUR Investments UK Ltd as Investment Manager to this fund.

This document is provided to give an indication of the investment and does not constitute an offer/invitation to sell or buy any securities in any fund managed by us nor a solicitation to purchase securities in any company or investment product. It does not form part of any contract for the sale or purchase of any investment. The information contained in this document is for guidance only and does not constitute financial advice.

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 FOUR 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 FOUR 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 Sanlam Universal Funds plc prospectus, the Fund supplement, the MDD 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.ie. 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.

This document contains information intended only for the person to whom it is addressed or presented (Investment Professionals, defined as Eligible Counterparties or Professional Clients), and is intended for evaluation purposes, with no licence to use the content or materials within. It must not be distributed to general public, or relied upon by Retail Investors.

The opinions are those of the author at the time of publication and are subject to change, without notice, at any time due to changes in market or economic conditions. Whilst care has been taken in compiling the content of this document, neither Sanlam FOUR nor any other person makes any guarantee, representation or warranty, express or implied as to its accuracy, completeness or fairness of the information and opinions contained in this document, which has been prepared in good faith, and to the fullest extent permissible under UK law. Some parts/sections of this document may be compiled from external sources. Whilst these sources are believed to be reliable, the information has not been independently verified and is subject to material amendment, revision and updating, therefore no representation is made as to its accuracy or completeness. No reliance may be placed for any purpose whatsoever on the information, representations or opinions contained in this document nor shall it or any part of it form the basis of or act as an inducement to enter into any contract for any securities, and to the fullest extent permissible under UK law no liability is accepted or any such information, representations or opinions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Statements in this document that reflect projections or expectations of future financial or economic performance of a strategy, or of markets in general, and statements of any Sanlam FOUR strategies' plans and objectives for future operations are forward-looking statements. Actual results or events may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statement. Important factors that could result in such differences, in addition to the other factors noted with forward-looking statements, include general economic conditions such as inflation, recession and interest rates, political or business conditions or in the tax or regulatory framework in the UK or other relevant jurisdictions, any of which could cause actual results to vary materially from the future results implied in such forward-looking statements. No assurance can be given as to the future results that will be achieved.

Sanlam FOUR makes no representation as to whether any illustration/example mentioned in this document is now or was ever held in any Sanlam FOUR Fund or Model Portfolio. Examples / Illustrations shown are only for the limited purpose of analysing general market, economic conditions or highlighting specific elements of the research process.

All of the information herein should be treated as confidential material with no less care than that afforded to the addressee's own confidential material of the most sensitive nature

Neither Sanlam FOUR nor any other person accepts responsibility or liability whatsoever for any loss howsoever arising, either directly or indirectly from any use of this presentation or its contents or otherwise arising in connection therewith. It should not be copied, faxed, reproduced, divulged or redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose, without the express written consent of Sanlam FOUR.

This document may constitute material non-public information, the disclosure of which may be prohibited by law, and the legal responsibility for its use is borne solely by the recipient.

There is no certainty the investment objectives of the portfolios or strategies mentioned in this document will actually be achieved and no warranty or representation is given to this effect.

Sanlam FOUR funds mentioned in this document are only available for sale in certain jurisdictions. For the avoidance of doubt, this document is not intended to promote these Funds to any person in any jurisdiction where such promotion is not permitted under applicable laws and regulations. Potential investors in these Funds should inform themselves of the applicable laws and regulations of the countries of their citizenship, residence or domicile and which might be relevant to any type of transaction in shares/units of our Funds. By accepting the terms of this disclaimer, you expressly acknowledge that you are, as the case may be, an investor who is legally or otherwise duly authorised to seek information about our Funds.

MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This document is not approved, reviewed or produced by MSCI. NS0119(09)0419 UKRet