Sanlam

Investments

Sanlam Active UK Fund

Q4 2019 | Quarterly newsletter

Market recap

For the quarter global markets performed very well, though exceptional Sterling strength meant that measured in GBP, the FTSE and S&P500 were only up modestly.

Breaking it down by month, October saw UK Equities down marginally. Boris Johnson's success in agreeing a deal with the EU drove a strong Sterling, which weighed on overseas earners (which comprise the bulk of the main UK Indices). The US markets were only up marginally in spite of another Fed rate cut.

November saw a rally in most global markets, as the US demonstrated continued economic growth and there were increased hopes of a Conservative win with a clear working majority in the UK. Sterling remained well supported and UK domestic stocks continued to trade higher.

The resounding Conservative win in the election in December was a net positive for UK domestic-focused businesses in particular, and the UK had a good month as the result was perceived to bring a measure of clarity on the path ahead. However, most of the return for the year in UK stocks had been delivered prior to the election.

Fund review

The fund performed well for the 2019 calendar year, returning 19.4% after fees. Pleasingly, this was well ahead of our benchmark, the MSCI UK Index, which returned 16.4%, and also ahead of the FTSE 100 (17.4%) and the FTSE All Share (19.2%). It was also pleasing to deliver a strong return in an absolute sense for our investors. In spite of strong performances during the year, many of the holdings in our fund, particularly stocks with a domestic-UK focus, remain undervalued.

Looking at the year ahead, we will continue to execute our strategy, which is to buy and hold a concentrated but diversified portfolio of strong businesses at attractive valuations. On valuation metrics, our portfolio has a forward PE of 13.4x, similar to the benchmark PE of 13.3x, and the forward dividend yield on the fund is 4.3%, again similar to the 4.6% of the benchmark. However, we believe we own a much higher quality portfolio than the index, with a ROE of 15.0% on the fund vs. 10.1% on the benchmark (all figures courtesy of Bloomberg estimates).

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
A Accumulation GBP	02/04/07	7.5	19.4	19.4	6.9	5.4	5.2
MSCI UK		2.3	16.4	16.4	5.8	6.7	5.1

Performance beyond one year is annualised

12 Months to	Dec-19	Dec-18	Dec-17	Dec-16	Dec-15
A Accumulation GBP	19.4	-11.3	15.3	5.5	0.8
MSCI UK	16.4	-8.8	11.7	19.2	-2.2

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 31/12/2019.

*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.

Key facts

Fund AuM	£51.5m
Strategy AuM	£51.5m
Number of Holdings	29
Active Share	58.1%
Portfolio Yield*	4.5%
Fund Managers	Chris Rodgers 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

Fund review (Cont'd)

In line with our stated strategy we continued to concentrate the fund, starting the year with forty stocks and ending with twenty-nine, which is at the lower of our target range of 25-40, and approximately where we want to be for the current opportunity set we see. The process involved selling fourteen holdings in order to focus the portfolio on a smaller list of higher quality businesses in which we have more conviction. We bought three new positions during the course of the year, Intercontinental Hotels, Astrazeneca and Rolls Royce. We would expect fund turnover to be materially lower going forward.

We have investments in nine of the eleven GICS sectors, and a good balance of both global and UK revenues in the companies we own. This gives us comfort that while we have a concentrated fund, it has not come at the expense of diversification.

Performance attribution

Year end

Outperformance for the year was driven by positive contributions from both allocation and selection effects.

For the year, the strongest stock contributors to our outperformance of the benchmark were Howden Joinery (total return of 58%), Taylor Wimpey (59%), Integrafin (46%), Flutter Entertainment (56%) and Lloyds Bank (27%). The largest detractors were Rolls Royce (-23%) and BATS (-38.3%), while not owning Diageo and London Stock Exchange plc also detracted.

In terms of sector performances for the year, the strongest contributions came from the materials, Financials and Consumer discretionary sectors, with our holdings in these sectors performing very well.

Quarter end

Outperformance in the final quarter was driven mainly by stock selection effects, but also by allocation effects.

The final quarter of the year was an excellent one for the fund up 7.5% compared to 2.3% for the MSCI UK.

Much of this performance was driven by a return to confidence in UK domestic-focused businesses. The largest contributors to our outperformance were from Taylor Wimpey (Total Return of 23% in the quarter), Howden Joinery (21%), Lloyds Bank (15%). However, there was a broad-based contribution from our holdings as the vast majority of them outperformed the Index. This is all the more encouraging given that twenty-two of the twenty-nine holdings in the fund are members of the MSCI UK, an index which is very similar in composition to the FTSE 100 and which derives a majority of its look-through revenues offshore.

In terms of sector performances, there was a good spread of positive attribution across most sectors, with our holdings in Financials and Consumer Discretionary contributing most.

No new holdings were purchased in the period. The main thrust of investment activity was to continue the process of trimming the number of holdings in order to reflect higher conviction in a more focused portfolio of high quality businesses.

The more positive tone to the market driven by recent policy stimulus led to a modest revival in "value" stocks. We were thus able to exit positions in some of the more cyclical businesses held, where future returns are more volatile and uncertain than the reliability and quality that we target. Specifically, this prompted sales of travel businesses Tui and International Consolidated Airlines. We also disposed of IQE, which suffers from erratic demand for their semiconductor wafers, and M&G (received as a spin-out from Prudential), which has struggled with poor fund performance and consequent fund outflows.

We trimmed holdings in two mega-cap stocks, namely HSBC and BAT, which both face increasingly uncertain growth prospects, and used the proceeds to add further to positions in Unilever and Intercontinental Hotels. Finally, reflecting the good value in UK domestic stocks, we added to Taylor Wimpey and Barclays.

Outlook

Ever since the Brexit referendum in June 2016, companies in the UK have faced a period of uncertainty, hampering business investment and corporate planning. With the strong working majority now secured for the Conservatives for the next five years, there is the potential for an acceleration in investment in the UK, both by business as well as by government.

More generally, on a global basis central banks appear in no mood to start raising rates from the very low levels currently. The lagged impact of recent economic stimulus should be supportive, and some degree of restocking in classically cyclical manufacturing sectors (such as semi-conductors) is probably in order. All in all, the backdrop is conducive to a modest pick-up in growth from current depressed levels.

As discussed in the fund review section, we have taken a number of steps in the past year to ensure we have assembled a concentrated but diversified portfolio of strong businesses, and we intend to own them for the longer term to benefit from a rising stream of free cash flows over time. We believe the outcome of our strategy is likely to deliver satisfactory results over the medium to longer term.

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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.

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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 (Ireland) has appointed Sanlam Investments UK Ltd or Sanlam Private 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 Sanlam Universal Funds plc prospectus, the Fund supplement 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. _SAH0120(136)0420UKInst