

# Sanlam US Dividend Fund

Q4 2019 | Quarterly newsletter

## Market recap

US markets advanced strongly in the final quarter of the decade, adding circa 9%, or an average of 3% each month. This provided for one of the best years on record in US equity markets, with a total return exceeding 30%. The year saw ten of the twelve months posting positive returns, averaging 2.5% per month. Only the first quarter was stronger than the fourth last year, where it advanced 14% but that followed a strong decline of 12% for the previous quarter. Of the quarter November was the strongest month up by 4%, followed by December up by 3% and October up by 2%. The markets continued to be driven by low rates, as earnings declined year-on-year. 10-year treasury yields recovered from the record lows of 1.65% entering the quarter, to 1.8% upon exiting it. Volatility remained low, while mid-caps and commodities underperformed.

The value style of investing continued to lag in this strongly advancing market environment. Although it added about 7.5% over the quarter, this still equated to a 3.5% underperformance vs. growth. Over the year, value, while adding a robust 25% in absolute terms, ended well below growth's 36%, thus paling in comparison. The dividend style saw an even smaller return, up by 23% - it was certainly not the year for strong and sustainable dividends. Indeed, 2019 marked the third consecutive year where the style lagged.

The fourth quarter wrapped up an overall great year for equities.

## Fund review

The fund was able to outperform strongly over this quarter, despite a very difficult environment for the style as markets continued to move upwards strongly and consistently throughout the quarter. Versus the value style the fund outperformed by 4%. Stock selection drove all of the outperformance, while the discount rate offered vs. the market started to narrow but remained very wide still at the end of the quarter.

### Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
<b>B Accumulation USD</b>	17/12/14	9.6	21.2	21.2	9.3	n/a	10.3
<b>MSCI North America</b>		8.8	30.7	30.7	14.2	n/a	10.9
<b>A Accumulation USD</b>	20/05/15	9.4	20.3	20.3	8.5	n/a	9.9
<b>MSCI North America</b>		8.8	30.7	30.7	14.2	n/a	10.5
<b>A Accumulation GBP</b>	30/12/14	1.8	15.7	15.7	5.8	n/a	12.7
<b>MSCI North America</b>		1.2	25.7	25.7	11.6	n/a	13.9

Performance beyond one year is annualised

12 Months to	Dec-19	Dec-18	Dec-17	Dec-16	Dec-15
<b>B Accumulation USD</b>	21.2	-7.8	16.8	22.7	-
<b>MSCI North America</b>	30.7	-5.7	20.9	11.6	-
<b>A Accumulation USD</b>	20.3	-8.5	16.0	21.9	-
<b>MSCI North America</b>	30.7	-5.7	20.9	11.6	-
<b>A Accumulation GBP</b>	15.7	-2.9	5.6	46.7	-
<b>MSCI North America</b>	25.7	0.1	10.4	33.1	-

### Key facts

<b>Fund AuM</b>	\$188.6m
<b>Number of Holdings</b>	60
<b>Active Share</b>	97%
<b>Portfolio Yield*</b>	2.9%
<b>Fund Manager</b>	Adour Sarkissian
<b>Benchmark</b>	MSCI North America
<b>Fund Launch Date</b>	17 December 2014
<b>Domicile</b>	Ireland
<b>Base Currency</b>	US Dollar
<b>Fund Type</b>	OEIC, UCITS
<b>IA Sector</b>	North America
<b>Morningstar Category</b>	US Large-Cap Value
<b>Dealing Deadline</b>	14:00 (GMT)
<b>Settlement Time</b>	T+3
<b>Valuation Point</b>	23:59 (GMT)
<b>Distribution</b>	Quarterly

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.

## Performance attribution

Stock selection, which drove the outperformance, was positive in most sectors over the quarter, but particularly so in financials, consumer discretionary and consumer staples. Within financials, State Street rallied, as the year-to-date decline in business conditions due to lower rates finally appeared to abate. The best performing stock, however, was TD Ameritrade, which returned 50% following its purchase. Within consumer discretionary Ralph Lauren was a major winner, while in consumer staples Walgreens rallied following news of takeout discussions with a large private equity firm. The common factor across all of these stocks was strong value. Notably, stock selection was also positive in the technology sector despite growth leading the way and value underperforming. Names such as Vishay Technology performed very strongly. Stock selection was negative in energy and healthcare, two sectors where momentum appeared to carry the day.

Sector allocation detracted from performance, as would be expected in an environment where style lags strongly. The underweight vs. the markets in technology, coupled with the overweight in consumer staples, were the main culprits. The fund benefitted meaningfully from zero exposure to utilities and real estate. Despite them being two yield-friendly sectors, they both witnessed declines with the market's strong move and the treasury yield's 10% advance.

Currency exposure acted as a mild positive over the quarter.

Top & Bottom 5 Stock Absolute Performance



Source: Bloomberg as at 31/12/2019.

## Outlook

We believe the fund currently provides a unique entry point for investors looking to lock in cheap valuation in the US equities markets. Exiting the quarter the fund still offered in excess of a 50% discount vs. the markets on earnings, trading at only 11 times, versus 22 for the markets (N.b. this is up from a low of 9.4 times at the end of the third quarter). The current discount witnessed is at a near historic high. This is a sign of extreme market conditions and our style being offered on sale, at least relative to the markets. We believe this will go down in history as a major market conundrum.

In the meantime the broader markets, and especially the growth names, appear disconnected from fundamentals, as valuation is not a factor currently. Whether valuations matter is a legitimate question participants are increasingly asking.

As such the risk-reward currently offered by the fund can hardly be matched. On other value metrics such as cash flow or book the fund was similarly offering a record 50% discount level. Notably, on a price to sales level the discount was even more attractive, having widened to as much as 70%, following a rapid move over the last year from 70 to 60, and back to 70% again.

In the meantime value has continued to lag significantly behind growth, with another 4% underperformance in the fourth quarter. This has put the 2019 underperformance at as much as 11%. 2019 also marked the third year in a row of a significant underperformance for the style. Over three and five year periods value now lags 43% and 49% behind, respectively. Over ten years the underperformance stands at 106%. However, over longer time periods, value has outperformed growth.

The fund is also offering a sustainable 3% income stream.

The massive discount versus the market offered, coupled with the major underperformance of style makes the fund a highly attractive proposition in US equities, especially on a relative basis.

We continue to focus all our efforts on identifying and investing in undervalued North American companies, and providing investors with the best risk-reward profile.

## Contact us

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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](http://www.sanlam.ie).

Issued and approved by Sanlam Investments which is authorised and regulated by the Financial Conduct Authority. Sanlam Investments is the trading name for our two Financial Conduct Authority (FCA) regulated entities: Sanlam Investments UK Limited (FRN 459237), having its registered office at 24 Monument Street, London, EC3R 8AJ and Sanlam Private Investments (UK) Ltd (FRN 122588) having its registered office at 24 Monument Street, London, EC3R 8AJ.

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](http://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.