Sanlam Investments

SVS Sanlam UK Equity Growth Fund

Q3 2021 | Quarterly newsletter

Market recap

Q3 saw UK equities deliver further gains, with the MSCI UK posting a net total return of 2.2%, taking returns for the year to date to 13.7%. In sterling terms, this means that the UK has underperformed developed markets in GBP terms in 2021 but is ahead of the ACWI (source: MSCI).

At the sector level, the best performing areas of the market over the quarter were energy, industrials and real estate. The energy sector was the standout, buoyed by the surge in wholesale natural gas prices, and widespread evidence that global demand for energy is now well ahead of the available supply. Weaker performing sectors in the MSCI UK included consumer staples, which were hit by rising bond yields, and materials, a sector which is now grappling with rapidly rising input costs.

On the policy front, the most significant development was a discernibly more hawkish stance from the Bank of England, with the central bank saying that it would consider raising Bank Rate *before* Quantitative Easing has come to an end.

Fund review

In Q3, the Fund produced a performance of 5.3% (A share class – source: Morningstar), outperforming the MSCI UK and the IA UK All Companies sector median. The Fund has also outperformed the MSCI UK and the sector median over one year, three years and five years. Year to date, the Fund has returned 23.5%.

It was a reasonably busy quarter for the Fund as we continued to position in what we judge to be the beneficiaries of the new economic environment in the UK as the country responds to the structural changes driven by Covid and the growing pressure on companies to adopt more sustainable business models. We exited housebuilder Redrow, as we judge that the RMI (repair, maintenance and improvement) names (e.g. Ferguson, Grafton, Travis Perkins) are better placed to manage rising input costs. Structurally, we also think these names are in a good position as governments seek to alleviate some of the economic damage caused by the pandemic by building out new and more sustainable infrastructure.

We reduced our exposure to the 'reopening' theme by exiting Workspace Group and Secure Income REIT as they reached our NAV targets and we exited our long-held position in Boohoo as we are concerned that rising returns and freight costs could start to weigh on its margins. We also sold B&M.

Performance data

	Inception	QTR	1yr	3yrs	5yrs
A Income GBP	07/05/87	5.3	46.7	8.8	9.4
MSCI UK		2.2	25.8	1.2	4.0

Performance beyond one year is annualised

12 Months to	Sep-21	Sep-20	Sep-19	Sep-18	Sep-17
A Income GBP	46.7	-12.3	0.2	5.2	15.4
MSCI UK	25.8	-19.8	2.8	5.8	11.0

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 30/09/2021.. Figures for periods longer than 12 months are annualized. NAV to NAV figures are used. Net of charges.

Key facts

Fund AuM	£23.5m
Number of Holdings	40
Fund Managers	Mark Boucher Mark Swain
Benchmark	None
Fund Launch Date	07 May 1987
Domicile	UK
Base Currency	Sterling
Fund Type	Unit Trust
IA Sector	UK All Companies
Morningstar Category	UK Flex-Cap
Dealing Deadline	11:59 (GMT)
Settlement Time	T+4
Valuation Point	12:00 (GMT)
Distribution	Semi-Annual

Performance attribution – Stock level – Q3

Winners	Comment
Future plc	Strong growth profile further boosted by acquisition of Dennis
Saietta	Successful IPO on AIM in July; huge addressable market in Asia
S4 Capital	Innovative leader in its field and unifying its two biggest brands

Losers	Comment
Royal Dutch Shell (A&B)	Not held in the Fund; buoyed by rising wholesale energy prices
Restaurant Group	Warned on cost inflation, supply chain problems and 'pingdemic'
easyJet	Rejected takeover approach and launched a rights issue

Outlook

As we have discussed in our recent monthly updates, the benefits of further economic recovery and global growth are more finely balanced against the risks of higher valuations, tightening liquidity, rising inflation and outright product shortages in some sectors as wholesale energy prices soar.

Valuation wise, the UK still looks relatively ok, trading on a forward PE of just 11.9x (versus 18.7x for the MSCI World) and a price-to-book value of 1.79x (versus 3.2x for the MSCI World and 2.8x for the ACWI IMI – source MSCI). However, it's clear that in the short term that worries about renewed supply chain disruption, soaring input costs for energy-intensive industries and the resurfacing of Brexit tensions (specifically in relation to the Northern Ireland Protocol) pose ample downside risks for the UK. Global investors continue to take a relatively cautious stance on the UK; this is probably not unsurprising given that the UK has been on the wrong end of Covid (over 120,00 deaths and rising according to John Hopkins University) and because it has seen particularly severe supply chain disruption (these disruptions are evident almost everywhere, but other developed nations have not seen basic items like petrol run out).

Overall, we think the final quarter of the year could be quite challenging for the UK: the easy part of the recovery is over, the BoE clearly wants to tighten policy, and input costs are soaring. It is inevitable that consumers' living standards will take a big hit in the short term and this could pose problems for some of the more cyclical sectors, particularly if consumer confidence begins to crumble. The second half of the calendar year is the period when company guidance comes home to roost, so given a particularly uncertain macro backdrop, judicious stock selection will be important in the final part of 2021.

On a longer-term horizon, we think that there are a number of very interesting structural growth opportunities in the UK as companies evolve their business models in response to the changes brought by the pandemic and the growing focus on sustainability, and these will provide the focal point for our research efforts.

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The Fund primarily invests in company shares listed on stock exchanges in the United Kingdom and will therefore have greater exposure to the market, political and economic risks in the UK.

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. **This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy**.

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Smith & Williamson Fund Administration Limited is the Authorised Corporate Director of the Smith & Williamson Unit Trusts.

Smith & Williamson Unit Trusts, a company constituted by trust deed as a UCITS scheme, authorised in the UK and regulated by the Financial Conduct Authority. The Fund is managed by Smith & Williamson Fund Administration Limited, 25 Moorgate, London, EC2R 6AY, Tel +44 (0)20 7131 4000, Fax +44 (0)20 7131 4001 which is authorised by the Financial Conduct Authority, as a UCITS Fund Manager and Alternative Investment Fund Manager. Smith & Williamson Fund Administration Limited has appointed Sanlam Investments UK Ltd and Sanlam Private Investments (UK) Ltd as Investment Manager to this Fund.

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