Sanlam Stable Global Fund

Q1 2019 | Quarterly newsletter

Market recap

The first quarter of 2019 has been an exceptionally strong quarter with the MXWO Index up in USD by +11.8% which is the best quarterly return since September 2010. This was largely driven by strong performance in the US markets with the S&P 500 rising by +14.4%. January saw a very robust rebound from the prior quarter with strong jobs data in the US, Powell's diligence in communicating a dovish approach to the markets, positive US-China trade talks and a rebound in oil prices. This positivity carried on into February and March with the price of oil climbing towards $70 a barrel as OPEC cuts alter the supply-demand landscape. However, there were negative economic reports showing low growth with expectations Germany may experience a recession shortly and poor business confidence in the EU while weak housing data and consumer confidence reports were reported in the US.

Other notable events during the quarter included the US three month and ten year treasury spreads inverting which has historically been the best predictor of recessions having forecast seven of the last seven downturns. Vale shuttered its Brucutu mine due to the death of approximately 300 people which has kept metal prices well supported. Brexit remains unresolved with Theresa May struggling to make progress and the EU granting an extension to October 31st as long as Britain participates in the EU elections.

Over the quarter the two top performing sectors were Information Technology (+19.7%) and Real Estate (+16.3%) with Health Care (+8.4%) and Financials (+8.6%) being the worst two performers.

Fund review

In a rising market, the fund outperformed the CPI target but underperformed the broader equity markets. The defensive nature of the fund led to the underperformance with both allocation and stock selection being negative detractors.

Healthcare detracted the most with Cigna and UnitedHealth performing poorly on political concerns that Medicare and Medicaid spending could be cut.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B Accumulation USD	10/09/12	9.6	9.6	7.7	6.2	6.0	10.0
MSCI ACWI - USD		12.2	12.2	2.6	10.7	6.4	9.0
CPI +6%		1.6	1.6	7.5	8.2	7.4	7.6
A Accumulation USD	18/10/13	9.4	9.4	6.9	5.4	0.1	6.1
MSCI ACWI - USD		12.2	12.2	2.6	10.7	0.1	6.8
A Accumulation GBP	02/01/15	6.9	6.9	15.0	9.0	n/a	8.9
MSCI ACWI - GBP		9.6	9.6	10.5	14.4	n/a	11.2

Performance beyond one year is annualised

12 Months to	**Mar-19**	**Mar-18**	**Mar-17**	**Mar-16**	**Mar-15**
B Accumulation USD	7.7	1.8	9.3	1.1	10.3
A Accumulation USD	6.9	1.0	8.5	0.4	9.5
MSCI ACWI - USD	2.6	14.8	15.0	-4.3	5.4
CPI +6%	7.5	8.2	8.8	7.0	5.8
A Accumulation GBP	15.0	-10.2	25.5	3.1	-
MSCI ACWI - GBP	10.5	2.4	32.2	-1.2	-

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 31/03//2019.

Key facts

Fund AuM	$80.0m
Strategy AuM	$80.0m
Number of Holdings	27
Active Share	92.8%
Portfolio Yield*	2.7%
Fund Managers	Colin McQueen
Target	CPI +6%
Fund Launch Date	10 September 2012
Domicile	Ireland
Base Currency	US Dollar
Fund Type	OEIC, UCITS V
IA Sector	Global
Morningstar Category	Global Large-Cap
Dealing Deadline	14:00 (GMT)
Settlement Time	T+3
Valuation Point	23:59 (GMT)
Distribution	Quarterly

*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

Over the quarter, the fund generated a 9.6% return in USD, which falls short of the 12.2% of the MSCI World, but is above the fund's objective of CPI+6%.

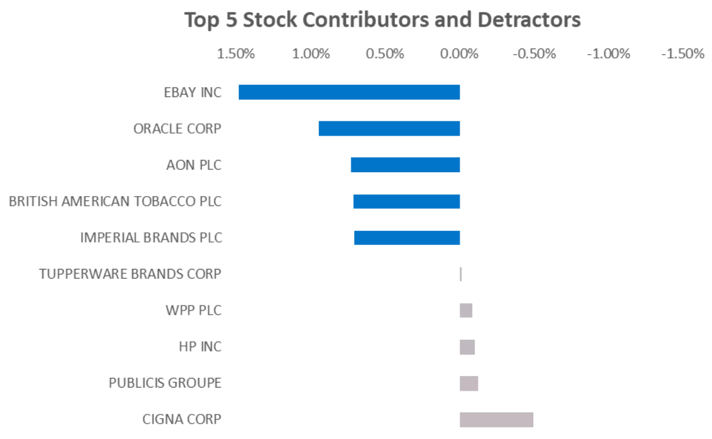
The main detractors were, on one hand, the lack of exposure to high-growth Tech names (FAANGs in particular) which outperformed the market significantly, and on the other, the fund's heavy exposure to the Healthcare sector.

The healthcare names were both the victim of political sentiment, as democrats proposed in February the "Medicare for All" bill aimed at galvanizing the party's liberal base. The DoJ's support for Texas's ruling of the ACA being unconstitutional was another troubling headline that could put into doubt future volumes for the PBMs and Distributors. However, at this stage any significant price reaction is immensely premature as the probability of any change is exceedingly low.

Cigna and United Health were the Healthcare names that had the largest impact on our portfolio.

On the positive side, EBAY (+142bps) and Oracle (+91bps) were the top contributors.

EBAY has been one of our core holdings for a long time, but it has only been recently that the market seemed to realise what we had long been saying: e-commerce is not only Amazon, and EBAY covers a specific demand (de-listed/used parts or items) where it is the absolute leader. What triggered the market's reaction was the news that an activist investor (Elliot Management) had made some proposals to management that, if implemented, could lead to shares being overvalued by ~100%.



Source: Bloomberg as at 31/03/2019.

Regarding Oracle, there has not been a clear catalyst for its >20% rally, but we are pleased that the stock is now even above its peak level in 2018, and feel that the market is starting to fully appreciate the tremendous economics of this business as it transitions from its traditional software licence model towards a SaaS model.

Outlook

With the broader equity market trading at or above its long term average valuation, it is difficult to claim equities as a group are cheap. In fact we would argue that after a decade of low inflation aided by US tax cuts, a healthy consumer environment and cheap credit, the market multiples have in all likelihood an inflated denominator. Corporate profit margins, particularly in the US, have never been higher and the cost of debt has rarely been this low.

While we are always weary of leverage, thinking about the next 3 to 5 years we would be particularly careful in getting into investments that make liberal use of debt combined with high operating leverage. The unwinding of this relationship could be disastrous.

As always, we do not claim to have a particular edge in predicting the macro environment, but the slowing interest rate schedule in the US and renewed monetary commitment in Europe, as well as heightened geopolitical tensions, makes us wary to invest in anything that at its core has a binomial macro outcome.

As a result we will continue focusing on bottom up, fundamental analysis, selecting companies that we think are obviously undervalued and whose future is largely under their own control. Protection of capital is and remains our primary concern.

While markets overall do not appear particularly cheap, the spread of valuation between in-favour and out-of-favour stocks remains significant. Just think of how anything with "subscription" in the description trades at minimum 25x earnings, and how everything else perceived as old tech or discretionary trades in the teens or lower. As value investors we will continue looking at both camps and find large disconnects between market perception and reality while always remaining faithful to our conservative projections.

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Important Information