

# Sanlam Global High Quality Fund

Q4 2019 | Quarterly newsletter

## Market recap

The final quarter of 2019 was a very strong one for markets, and rounded off what was a stellar year for equities. The MSCI returned 22.7% in Sterling which is the second best year since 1997. The strength of the recovery took many people by surprise in terms of its speed and size.

The mood music seemed to get better as the quarter went on with most Central Banks set on a very dovish course. Added to this was uncertainty being reduced in a few forms. First, the abating of the threat of all out trade wars between US and China with a deal seemingly agreed. Second, the Conservatives won a large majority giving them a mandate to get Brexit completed.

Global markets ended the quarter up over 8.5% in Dollars, however, for Sterling investors the index only delivered a 0.5% gain due to Sterling strength.

## Fund review

The fund ended the quarter broadly in line with the index gain of 0.5% with a 0.15% gain in Sterling. During the quarter performance was helped by contributions from our tobacco holdings. British American Tobacco (+11.10%) and Imperial Brands (+6.5%) finally had strong performance after a long period of detracting.

During the third quarter we bought two new positions, in ABI InBev and General Dynamics Corp. Both names trade on forward free cash flow yields of over 6.5% which we think is attractive. ABI should see top line growth in the long term of mid single digits with its dominant market position in most categories and geographies. General Dynamics is also a market leader in its categories of both aviation and defence. It also boasts an enviable track record of excellent capital allocation over the long term.

### Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
<b>C Accumulation GBP</b>	28/02/14	0.1	18.7	18.7	10.6	14.3	14.4
<b>MSCI World</b>		1.0	22.7	22.7	10.0	12.3	12.6
<b>I Accumulation GBP</b>	24/06/16	0.1	18.5	18.5	10.4	n/a	15.2
<b>MSCI World</b>		1.0	22.7	22.7	10.0	n/a	15.6
<b>A Accumulation GBP</b>	02/01/15	-0.1	17.5	17.5	9.5	13.2	13.2
<b>MSCI World</b>		1.0	22.7	22.7	10.0	12.3	12.3

Performance beyond one year is annualised

12 Months to	Dec-19	Dec-18	Dec-17	Dec-16	Dec-15
<b>C Accumulation GBP</b>	18.7	-2.9	17.5	28.7	12.1
<b>MSCI World</b>	22.7	-3.0	11.8	28.2	4.9
<b>I Accumulation GBP</b>	18.5	-3.1	17.3	n/a	n/a
<b>MSCI World</b>	22.7	-3.0	11.8	n/a	n/a
<b>A Accumulation GBP</b>	17.5	-3.9	16.3	27.4	n/a
<b>MSCI World</b>	22.7	-3.0	11.8	28.2	n/a

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

<b>Fund AuM</b>	£570.0m
<b>Strategy AuM</b>	£1240.7m
<b>Number of Holdings</b>	30
<b>Active Share</b>	90.1%
<b>Portfolio Yield*</b>	2.5%
<b>Fund Managers</b>	Pieter Fourie William Ball
<b>Benchmark</b>	MSCI World
<b>Fund Launch Date</b>	28 February 2014
<b>Domicile</b>	Ireland
<b>Base Currency</b>	Sterling
<b>Fund Type</b>	OEIC, UCITS
<b>IA Sector</b>	Global
<b>Morningstar Category</b>	Global Large-Cap
<b>Dealing Deadline</b>	14:00 (GMT)
<b>Settlement Time</b>	T+3
<b>Valuation Point</b>	23:59 (GMT)
<b>Distribution</b>	Semi-Annually

## Performance attribution

In terms of attribution the fund's main detractors for the quarter were Oracle and Sabre. Neither share disappointed us to any significant degree, rather, both were just weak in a very buoyant market. Oracle's top line growth of 2% for the quarter was in line with guidance, however, the outlook was somewhat more muted than the market was hoping for.

In terms of stock selection, our best contributors were BAT, Imperial and Inter Continental Hotels. Tobacco shares have been dramatically sold off over the past 2 years with the shares de-rating to multiples of high single digits. This was on the back of huge uncertainty around the effect of vaping on traditional volumes and the increased rhetoric from the FDA on menthol and nicotine levels.

The market seemed to finally stop de-rating these shares positive news emerged on both nicotine levels and the speed of the move to NGPs. We feel that both shares are materially undervalued and we continue to hold our exposure.

## Outlook

Global interest rates are likely to remain lower for longer, but markets have now discounted most of this good news. The question on many investors' minds is when or if the US is approaching a mild recession as the cycle is very extended in this region. It is reassuring to most that we seem not to have witnessed the huge excesses that traditionally lead to a bubble with the one exception being the increase in the amount of corporate debt globally.

Although we don't think equities are in bubble territory, clearly the wonderful returns of 2019 have reduced the future medium term expected return an investor can expect from the asset class. Notwithstanding a blow up in current tensions in Iran or a similar event we think a more realistic expectation now sits in the 6% range. The huge move higher in the valuation of shares in the so called "growth" bucket and "safety" bucket has meant that we feel these are the areas that are vulnerable. Our main focus is to stay valuation focussed without hurting the quality of the businesses we own as buying sub-standard businesses can always result in value traps.

By bringing in new names in to the portfolio over the last year we continue to maintain our valuation discipline even in the face of ever increasing multiples for high quality businesses. Pleasingly, the free cash flow yield of the portfolio is still over 5.7% even as the market has ground higher.

## Contact us

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## Important Information

The Fund may invest in companies based in emerging markets which may involve additional risks not typically associated with other more established markets such as increased risk of social, economic and political uncertainty. The Fund has holdings which are denominated in currencies other than sterling and may be affected by movements in exchange rates. Consequently the value of an investment may rise or fall in line with the exchange rates.

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).

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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](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