

Sanlam Global High Quality Fund

Q4 2020 | Quarterly newsletter

Market recap

The final quarter of 2020 saw global equity markets power to new highs. The market had already recovered remarkably strongly from its March lows, however in early November a vaccine for COVID 19 was announced by Pfizer. With interest rates at near zero levels in most developed markets it proved to be the additional catalyst that led the market to look through any short term weakness and the return to a more normal world. The strength carried on into December and until year end.

The market was also buoyed by the victory of Joe Biden in the US presidential election. The Democratic Party is promising new large amounts of fiscal spending and will hopefully also bring about better diplomatic relations globally. The additional surge in markets in the last quarter was led by the sectors that had lagged for many years now, such as financials and materials. Our stocks performed well in absolute terms, however, it was difficult to keep up with the market with the above-mentioned sectors performing so strongly, as they are ones our philosophy tends to avoid based on quality metrics.

Fund review

The fund ended the quarter up 4.75 % in sterling terms, thus underperforming the MSCI index which was up 7.75 % in sterling terms. During the quarter performance again suffered by not having exposure to sectors such as materials and financials in addition to not owning a name like Tesla. Fortunately, many companies we own are heavily exposed to a more normal world, specially with regards travel and hospitality. We saw exceptional recoveries in names like Sabre, Booking and Intercontinental Hotels.

During the quarter we bought two new positions. These were Anthem and Electronic Arts. The weakness in Alibaba which arose from the failed IPO of its holding in Ant Financial provided us the opportunity to add to this name also at an attractive entry point for this fast-growing online retailer. We also deployed cash into a holding in Anthem, Anthem is one of the leading US private health insurance providers, alternatively called Managed Care Organisation (MCO). The name provided us with a forward free cash yield of over 7% which we feel is highly attractive for a company that should grow its revenue at high single digit rates. Given the market strength and based on valuation grounds we exited our holdings in Diageo, Heineken and Cognizant.

Performance data

| | Inception | QTR | YTD | 1yr | 3yrs | 5yrs | Since Inception |
|---|-----------|--------|--------|--------|--------|------|-----------------|
| C Accumulation GBP | 28/02/14 | 4.7 | 6.2 | 6.2 | 7.0 | 13.1 | 13.2 |
| MSCI World | | 7.8 | 12.3 | 12.3 | 10.1 | 13.9 | 12.5 |
| I Accumulation GBP | 24/06/16 | 4.7 | 6.0 | 6.0 | 6.7 | n/a | 13.1 |
| MSCI World | | 7.8 | 12.3 | 12.3 | 10.1 | n/a | 14.8 |
| A Accumulation GBP | 02/01/15 | 4.5 | 5.1 | 5.1 | 5.8 | 11.9 | 11.8 |
| MSCI World | | 7.8 | 12.3 | 12.3 | 10.1 | 13.9 | 12.3 |
| Performance beyond one year is annualised | | | | | | | |
| 12 Months to | Dec-20 | Dec-19 | Dec-18 | Dec-17 | Dec-16 | | |
| C Accumulation GBP | 6.2 | 18.7 | -2.9 | 17.5 | 28.7 | | |
| MSCI World | 12.3 | 22.7 | -3.0 | 11.8 | 28.2 | | |
| I Accumulation GBP | 6.0 | 18.5 | -3.1 | 0.2 | n/a | | |
| MSCI World | 12.3 | 22.7 | -3.0 | 0.1 | n/a | | |
| A Accumulation GBP | 5.1 | 17.5 | -3.9 | 16.3 | 27.4 | | |
| MSCI World | 12.3 | 22.7 | -3.0 | 11.8 | 28.2 | | |

Key facts

| | |
|-----------------------------|-------------------------------|
| Fund AuM | £458.7m |
| Strategy AuM | £1850.0m |
| Number of Holdings | 35 |
| Active Share | 89.9% |
| Portfolio Yield* | 2.4% |
| Fund Managers | Pieter Fourie William Ball |
| Benchmark | MSCI World |
| Fund Launch Date | 28 February 2014 |
| Domicile | Ireland |
| Base Currency | Sterling |
| Fund Type | OEIC, UCITS |
| IA Sector | Global |
| Morningstar Category | Global Large-Cap |
| Dealing Deadline | 14:00 (GMT) |
| Settlement Time | T+3 |
| Valuation Point | 23:59 (GMT) |
| Distribution | Semi-Annually |

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 31/12/2020.

*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

In terms of attribution the fund's main detractors for the quarter were Alibaba, Bayer and Sage. As mentioned earlier Alibaba has been front and centre in the media recently due to its failed IPO in Ant Financial and the announcement by the Chinese government of an inquiry into anti competitive practices by Alibaba. We feel the tensions are exaggerated and specifically the effect of the share price. Much of Alibaba's success since inception is due to support from the government and we feel this heightened tension and scrutiny is due to remarks made by its founder Jack Ma regarding the government recently. These tensions should subside as both parties want to see the continued success of this national champion.

In terms of stock selection, our best contributors were Samsung, Sabre and Booking Holdings. Samsung is a stock we have held for a number of years as we felt it was unjustifiably cheap given its high level of free cash flow and leading market positions. The market has finally started to reward this name in a very short space of time as the semi-conductor market cycle has turned for the better. Both Booking and Sabre were both key beneficiaries of the announcement of the vaccine in November as they both operate in the travel sector and had traded on depressed valuations throughout the pandemic.

Outlook

With the announcement of a number of vaccines the market has discounted the return to a more normal life in the short term. This combined with ultra low interest rates globally has meant that risk assets have been very strong for the past two years. Whilst we look forward to the return of business as usual in as quick a time as possible we are also aware that the market has re-rated even on forward looking consensus earnings. This means what is needed now is for the earnings growth to come through to justify these moves.

The concentration risk in global equity markets has reached new levels as a few names dominate short term returns. One sixth of global equity market returns since fund launch nearly 7 years ago came from Apple, Microsoft, Amazon, Google and Facebook. Over the last 3 years these 5 names contributed almost 30% percent of total equity market returns illustrating how concentration risk keeps increasing. Valuation discipline is imperative at this stage in a market cycle and we continue to adopt this discipline. There are always selective opportunities for the patient investor as some sectors of the market have participated in the bull market to a much lesser extent than others.

We continue to rotate the portfolio into areas of the market where we see longer term value and we trim areas that have been constructive for a long time but we assess that these names have now become excessively valued. We would love to own many of these businesses forever but we are not prepared to pay any sort of valuation to achieve that.

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.

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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. AB0121(243)0421UKInst.