Sanlam Investments

Sanlam Active UK Fund

Q2 2021 | Quarterly newsletter

Market recap

World markets, including UK markets, had another strong quarter. The MSCI UK was up 5.8% in Q2 and the FTSE All Share up 5.6%. The Sanlam Active UK Fund was also up in the quarter (+2.0%) but lagged the benchmark. This strong Q2 on a strong Q1, with the MSCI UK up 11.3% for the year to end June.

This means that some of the well-known UK indices are back to roughly where they started the year in 2020, prior to the pandemic. The MSCI World and S&P500 Indices are well ahead of their early 2020 levels, driven primarily by the large tech holdings (the UK Technology sector is very small relative to that of the MSCI World or the S&P500 Index).

The progressive economic reopening pathway set out a few months ago for the UK continued, albeit with a delay to the final stage to July 19th. UK COVID-19 vaccine success gives hope in a return to normal very soon for life and the economy in general. There are fits and starts and there is still considerable uncertainty. There will always be some sort of "noise" or worry in the market – our job is to take note of what is happening, but to look through this and focus on the prospects of companies we own.

Inflation has picked up in the US and UK and elsewhere. While central banks assure everyone it is "transitory", we remain watchful on this important issue and take the threat of inflation very seriously (discussed below). What we cannot afford to do is ignore the possibility that inflation may remain higher than central banks are forecasting.

There have been a number of opportunistic bids in the last six months for UK companies from overseas entities. This suggests there is value in the UK market generally.

Fund review

The fund was up 2.0% in Q2, while the benchmark went up 5.8%. For the year to date, the fund is up 5.9%, while the benchmark is up 11.3%. It has been a frustrating period lagging our benchmark for the first six months. We discuss performance attribution on the next page. The majority of the businesses owned by the fund were very resilient last year (23 of the 28 companies we currently own reported profits in 2020) and have continued to perform well this year with encouraging trading updates in tough conditions.

Happily, the fund is up 20.5% over the past twelve months, beating the benchmark (MSCI UK) by 3.1%. The fund has also outperformed the benchmark over three years and five years.

On the key topic of inflation, we invest in companies with strong returns on capital, generally derived from pricing power, or low capital intensity, or a combination of both. This gives us some level of comfort if inflation does continue to stay high, at least in a relative sense if you compare our portfolio to the average company in the stock market. As ever we own a concentrated portfolio of higher quality stocks, diversified across most sectors. Our buy and hold approach continues, with very low turnover. We did not buy any new companies in Q2, nor did we sell completely out of anything we own. We did opportunistically top up quite a few holdings in Q2, namely Howden Joinery, Lloyds Bank, Conmed, Astrazeneca, Becton Dickinson, TW and Anglo American. We also trimmed a couple of holdings.

We have 28 positions. The extra stock in the fund this quarter is Thungela Resources, a spin-off we received from our holding in Anglo American. The position is very small and we will examine its prospects and decide what to do with it.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
A Accumulation GBP	02/04/07	2.0	5.9	20.5	1.3	8.2	4.6
MSCI UK		5.8	11.3	17.4	0.4	5.0	4.3

Performance beyond one year is annualised

12 Months to	Jun-21	Jun-20	Jun-19	Jun-18	Jun-17
A Accumulation GBP	20.5	-12.6	-1.3	9.4	30.1
MSCI UK	17.4	-15.3	1.6	8.2	16.7

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 30/06/2021. Class A net returns are used to illustrate the funds longest track record in the table above. Figures for periods longer than 12 months are annualized. NAV to NAV figures are used.

*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

Fund AuM	£128.7m
Strategy AuM	£128.7m
Number of Holdings	28
Active Share	68.8%
Portfolio Yield*	2.0%
Fund Managers	Chris Rodgers Andrew Evans
Benchmark	MSCI UK
Fund Launch Date	02 April 2007
Domicile	Ireland
Base Currency	Sterling
Fund Type	OEIC, UCITS
IA Sector	UK All Companies
Morningstar Category	UK Flex-Cap
Dealing Deadline	11:00 (GMT)
Settlement Time	T+3
Valuation Point	Midday (GMT)
Distribution	Semi-Annually

Performance attribution

Underperformance was driven mainly by stock selection. Stock selection in the quarter was negative 2.4% relative, and sector allocation negative 0.6%.

In terms of sectors, our allocation to Consumer Discretionary and Financials detracted most as they are large sectors and both underperformed the index. Note that sector allocation is an outcome, not a target. We start with bottom up fundamental stock research and stock-picking, and then risk management.

Our negative stock attribution, which drove the vast majority of the relative underperformance for the quarter, was driven mainly by four stocks. In each case, we remain positive about the future of the businesses and don't believe anything has happened to materially impair their prospects. In each case, there are specific (but in our view, non concerning) reasons why the shares may have reacted negatively in the quarter.

- Flutter Entertainment has been the strongest contributor to the fund over the past 18 months, but the shares were down 15% in the quarter.
- Taylor Wimpey fell 10% in spite of a very pleasing trading update in April.
- Barclays shares fell 8% in the quarter, though the end of June they still returned 17% - generating strong performance for the fund in the first half of the year.
- Intercontinental Hotels fell 3% in the quarter, in spite of business continuing to recover in their key markets of the USA and China.

On the positive side, Howden Joinery, XP Power and Rightmove all added nicely to relative performance in Q2 but not enough to offset the negatives noted above.

Outlook

Our investment strategy of buying and holding a concentrated portfolio of high quality businesses allows us to focus on what really drives performance in the long run – business performance. We aim to own these businesses long enough to benefit from their exceptionally attractive business characteristics.

We topped up a number of our highest conviction holdings in the quarter, opportunistically taking advantage of short term market fluctuations.

The portfolio remains nicely balanced. We have stocks in ten of the eleven GICS sectors. We have a good balance of what might be termed "growth" companies as well as high quality cyclicals.

Probably the most noteworthy thing we have done in the past eight months is buy a large position in AJ Bell and add meaningfully to our position in Integrafin. Our views have been discussed in previous letters but they both remain very well placed to continue to win share in an enormous, growing and very important market – that of UK investment platform providers. We now have good exposure to these two highly cash generative, high ROCE businesses with a lot of growth ahead of them.

Balance sheets in the portfolio companies remain strong. Trading updates have generally confirmed improving conditions.

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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.

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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.

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