

Sanlam Global High Quality Fund

Q3 2020 | Quarterly newsletter

Market recap

The third quarter of 2020 saw global equity markets continue to stabilise and maintain their gains off the lows of late March. The size of the recovery has taken many investors by surprise as economic activity is still subdued and a full recovery to pre-Covid levels looks set to take a number of years. With interest rates at near zero levels in most Developed Markets it has become evident that the market has been prepared to look through much of the near-term noise.

The market recovery peaked at the beginning of September after which it suffered a small pullback before stabilising again. The pullback was particularly focussed on some of this year's most stellar performers on the NASDAQ exchange. A name like Facebook saw a 20% pullback of its late August highs. The focus now seems to be on the severity of the recent increase in Covid-19 cases in Europe and the UK as these economies see the effects of their reopening. In addition, eyes are now on the US presidential election race and the market is digesting what a Democratic government could mean for policies if they manage to win.

Fund review

The fund ended the quarter down 0.3% in Sterling terms, thus underperforming the MSCI index which was up 3.48 % in Sterling terms. During the quarter performance again suffered by not having exposure to some of the growth names with high weightings such as Apple. Within the quarter we saw stellar performance from a number of our companies such as Tencent, Facebook, Reckitt Benckiser and Alphabet. We used the period of large strength in these names to reduce our exposure in late August as some of these counters briefly achieved levels of our assessment of their intrinsic value.

During the first quarter we bought four new positions. These were Abbvie, Alibaba, Becton Dickinson and Automatic Data Processing (ADP). The short-term weakness in the US jobs market gave us an attractive entry point to the high quality business of ADP which is the leader in payroll management and processing. Abbvie is a leading drug manufacturer in the US and globally. The share is well known for its blockbuster drug Humera. However, there are concerns that the market has about its ability to replace this drug once it comes off patent. We believe these concerns are excessively discounted in the current share price given the pipeline of drugs it has already in place to offset this future event.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
C Accumulation GBP	28/02/14	-0.3	1.4	1.5	7.0	14.3	12.9
MSCI World		3.2	4.2	5.2	9.1	14.0	11.8
I Accumulation GBP	24/06/16	-0.4	1.2	1.3	6.8	n/a	12.7
MSCI World		3.2	4.2	5.2	9.1	n/a	13.8
A Accumulation GBP	02/01/15	-0.6	0.6	0.5	5.9	13.1	11.5
MSCI World		3.2	4.2	5.2	9.1	14.0	11.4

Performance beyond one year is annualised

	12 Months to	Sep-20	Sep-19	Sep-18	Sep-17	Sep-16
C Accumulation GBP		1.5	9.3	10.5	14.6	38.8
MSCI World		5.2	7.8	14.4	14.4	29.9
I Accumulation GBP		1.3	9.1	10.3	0.1	n/a
MSCI World		5.2	7.8	14.4	0.1	n/a
A Accumulation GBP		0.5	8.2	9.4	13.4	37.3
MSCI World		5.2	7.8	14.4	14.4	29.9

Key facts

Fund AuM	£415.2m
Strategy AuM	£1850.0m
Number of Holdings	37
Active Share	99.6%
Portfolio Yield*	2.6%
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 30/09/2020.

*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 Bayer, General Dynamics and British American Tobacco. Bayer has been particularly weak as they issued new guidance to the market that next year's earnings would see little or any growth. This is mainly due to some non-recurring events in the crop science business in addition to weakness in the Brazilian currency for the forecast period. We maintain this as an undervalued business experiencing near-term headwinds.

In terms of stock selection, our best contributors were Intercontinental Hotels, Facebook and Cognisant. Facebook has seen a direct benefit in increased volume of traffic in lockdown in addition to many firms increasing share of Ad spend dollars to online platforms. As the effects of the global lockdown were eased we also saw a large rally in the likes of Intercontinental Hotels as most of their hotels are again open for business and the negative news flow abated.

Outlook

Global growth is undoubtedly going to be severely impacted by the effects of Coronavirus. However, the market has almost completely disregarded the 2020 calendar year in its outlook and assessment of financial metrics. Although markets have continued to be very strong we remain moderately positive on equities in the medium term as we believe headline Index's levels are disguising many areas of the market that have not participated in the current strength. Indeed if one was to construct an equally weighted MSCI World Index instead of a market capitalization weighted one, that index would be down 15% since January 2018.

We have continued to maintain our valuation discipline and added to the quality businesses when the market allowed, such as Becton Dickinson, ADP and Abbvie. We also were active in the quarter in trimming exposure at the late August peaks as shares such as Reckitt Benckiser approached fair value and that name now is no longer a top 10 holding for the first time in a while. We also used weakness in the quarter to continue adding to names such as Novartis and Heineken as we deemed their value to be underappreciated longer term. The current market environment seems to be one where this trend may continue as we deal with the effects of very low interest rates and fiscal stimulus. It leaves the market in a backdrop with much government support, although growth remains benign for the near term.

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. With near term catalysts like the US election coming up we are constantly on the lookout for entry points to these great businesses.

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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. AM1020(213)0121UKInst