Sanlam Investments

Sanlam US Dividend Fund

Q2 2019 | Quarterly newsletter

Market recap

US markets advanced a little more than 4% in the second quarter of 2019, following the 14% record rise of the preceding quarter. This put the year-to-date advance for the US markets at 18.6% mid-year, or more than 3% per month, for one of the best year starts ever.

The intra-quarter pattern was less smooth however, as the strong month of April which was up 4% following on the heels of the record first quarter was followed by a very weak May with a 7% decline, only to be fully recovered by June. The month of June was as such the strongest June for US markets since 1955.

The value and dividend styles of investment continued to lag behind the markets' advance, however, although the differential was slightly less pronounced this quarter. Year-to-date, value is nevertheless delivering a respectable showing, advancing by 15% for the best year-to-date returns since this fund's launch. This still pales however relative to growth's advance of 21%.

Markets generally continued to take their cue from the fixed income universe, where treasury yields tumbled significantly. The 10-year treasury yields as such moved below 2% again, down another 50bps over the quarter and 1% year-to-date.

Fund review

The fund advanced by less than 2%, lagging behind the markets. This followed on from the fund's strong returns of 14% in the first quarter. The narrow lead of the markets led by the mega-growth part of the spectrum explained the differential. The discount vs. the markets widened.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B Accumulation USD	17/12/14	1.4	13.6	4.4	11.2	n/a	10.0
MSCI North America		4.2	18.6	9.3	13.2	n/a	9.8
A Accumulation USD	20/05/15	1.2	13.2	3.6	10.3	n/a	9.6
MSCI North America		4.2	18.6	9.3	13.2	n/a	9.2
A Accumulation GBP	30/12/14	3.7	13.3	7.4	12.5	n/a	13.6
MSCI North America		6.7	18.7	13.3	15.1	n/a	14.1

Performance beyond one year is annualised

12 Months to	Jun-19	Jun-18	Jun-17	Jun-16	Jun-15
B Accumulation USD	4.4	13.1	16.3	10.5	-
MSCI North America	9.3	13.6	17.0	2.0	-
A Accumulation USD	3.6	12.3	15.5	10.5	-
MSCI North America	9.3	13.6	17.0	2.0	-
A Accumulation GBP	7.4	10.4	20.0	28.0	-
MSCI North America	13.3	11.8	20.4	20.0	-

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 30/06//2019.

Key facts

Fund AuM	$415.9m
Number of Holdings	61
Active Share	96%
Portfolio Yield*	2.9%
Fund Manager	Adour Sarkissian
Benchmark	MSCI North America
Fund Launch Date	17 December 2014
Domicile	Ireland
Base Currency	US Dollar
Fund Type	OEIC, UCITS
IA Sector	North America
Morningstar Category	US Large-Cap Value
Dealing Deadline	14:00 (GMT)
Settlement Time	T+3
Valuation Point	23:59 (GMT)
Distribution	Quarterly

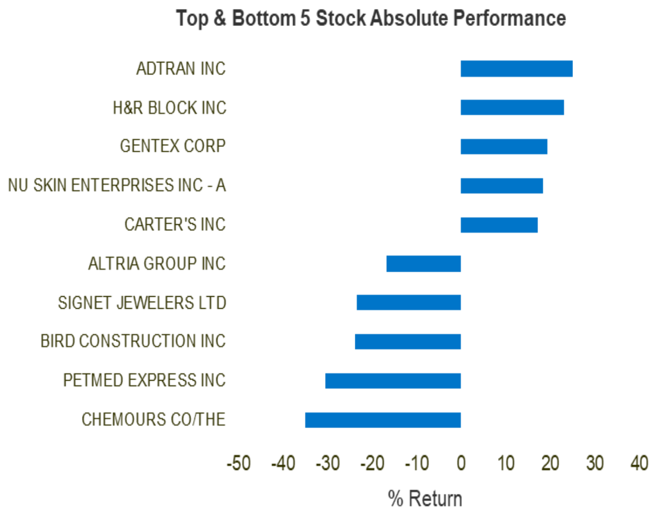
Performance attribution

In a lagging value and dividend style environment the fund underperformed, returning a bit less than 2% for the quarter. Most of the underperformance came from stock selection, while sector allocation was broadly neutral and currency exposure was a slight positive.

Stock selection was most negative in the defensive sector of consumer staples, and the overweight cyclical sectors of consumer discretionary and materials. In consumer staples, pharmacy chain Walgreen Boots Alliance reduced its profit expectations, weighing on the stock. In consumer discretionary, underperformance came largely from the previous quarter's winners, which gave back a lot of their gains on worries of consumer spending. Financials were also negative, but it was the stocks we could not own that weighed on relative performance. Interestingly stock selection was positive in information technology and health care.

In sector allocation it was the opposite picture of stock selection with the underweight in information technology hurting most. This was offset with the overweights in consumer discretionary and materials however.

While currency had acted as a negative over the past few years, the strength from Q1 continued this quarter driven by a positive Canadian dollar.



Source: Bloomberg as at 30/06/2019.

Outlook

With the markets advancing north of 18% in the first half alone, the markets' trailing multiple moved again to very high territories, boasting a price to earnings ratio of 19.6.

The portfolio's multiple on the other hand moved less than the markets, remaining at 10.4 or deeply entrenched in value territory. This widened the discount again, to north of 45% which we view positively. On a price to sales basis the discount also widened back to close to 70%, having had moved over the last six months' positive performance closer to 60%.

In the meantime value has continued to trail growth by a large margin in the first half of 2019, lagging by 6% over the first six months despite a respectable advance of 15% year-to-date. The value and dividend styles have now significantly lagged in 2017, 2018 and year-to-date. We are back to the record levels of divergence seen in the internet bubble. Over three years value now lags growth by 31%, and over five years by 44%, while over a 10-year market cycle value lags by 106%. These are all staggering numbers. Over longer time periods, value has outperformed growth. This should create an attractive entry point for the strategy.

The large discount versus the markets, coupled with the underperformance of style makes the fund a highly attractive proposition in US equities, especially on a relative basis.

We continue to focus all our efforts on identifying and investing in undervalued North American companies, and providing investors with the best risk-reward profile to US equities at all times.

Source: Bloomberg as at 30/06/2019.

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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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