

Sanlam Stable Global Fund

Q3 2019 | Quarterly newsletter

Fund overview

In USD terms the fund returned 0.6% in Q3 2019, delivering absolute returns but underperforming the CPI + 6% Benchmark and its equity benchmarks. Given the volatility of the markets in this quarter, the fund behaved exactly as expected, providing a positive and stable return. Noteworthy positive contributors were Medtronic, British American Tobacco, as well as our largest recent investment, Bayer. Bayer made headway in disposing some of its peripheral assets to reduce its debt load and potential Glyphosate liability, leading to 13% rise in August, but gave back some of this performance in September.

Conversely, the fund was held back by our Healthcare holdings, which retracted on regulatory fears in the eventuality of a Democratic presidency.

The work that we began in April 2019, when we officially took over the management of the fund is essentially over and we are happy to report that we have improved every aspect of the fund, from the robustness of the process to the rigour of the analysis and ultimately to the composition of the portfolio.

The Stable Global portfolio is a selection of companies with exceptional cash flow and earnings stability that are clearly undervalued. Our core investment requirements are:

- 1) minimum double-digit annual returns
- 2) asymmetric risk profile
- 3) downside protection

New notable investments are Bayer, Baidu, Alphabet and Cisco. We exited our positions in Microsoft, HPQ, Merck, Zimmer and Viacom.

(Con'td overleaf)

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B Accumulation USD	10/09/12	0.6	14.3	3.7	6.5	6.2	9.9
MSCI World USD		0.5	17.6	1.8	10.2	7.2	9.7
CPI +6%		1.9	5.8	7.7	8.1	7.5	7.6
A Accumulation USD	18/10/13	0.5	13.7	3.0	5.7	5.4	6.3
MSCI World USD		0.5	17.6	1.8	10.2	7.2	7.4
A Accumulation GBP	02/01/15	3.8	17.5	9.0	7.5	n/a	10.1
MSCI World - GBP		3.8	21.5	7.8	12.2	n/a	12.6

Performance beyond one year is annualised

12 Months to	Sep-19	Sep-18	Sep-17	Sep-16	Sep-15
B Accumulation USD	3.7	8.0	7.8	13.2	-1.2
A Accumulation USD	3.0	7.2	7.0	12.4	-2.0
MSCI World - USD	1.8	11.2	18.2	11.4	-5.1
CPI +6%	7.7	8.7	7.9	7.1	6.2
A Accumulation GBP	9.0	10.0	3.6	31.7	-
MSCI World - GBP	7.8	14.4	14.4	29.9	-

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 30/09//2019.

Key facts

Fund AuM	\$67.4m
Strategy AuM	\$67.4m
Number of Holdings	24
Active Share	94.4%
Portfolio Yield*	2.4%
Fund Manager	Lorenzo Dicorrado
Target	CPI +6%
Fund Launch Date	10 September 2012
Domicile	Ireland
Base Currency	US Dollar
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	Quarterly

*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.

For professional investors only

Bayer

Bayer is a Pharmaceutical and Consumer Health business, which became the world's largest Crop Science company after the acquisition of Monsanto in 2018. Along with this accolade came a string of litigations related to the glyphosate chemical used in its roundup herbicide and criticism for the acquisition price. As a result, the stock plummeted from €140 in 2015 to €60 in 2019. Once we normalise the fundamentals, including litigations, we conclude that this company is trading on 7% FCFY and 13x EBIT, which is cheap for a stable, compounding business with strong market positions, high margins and ROEs. Were it not for the current controversies we would not be surprised to see it trading at earning multiples well into the 20s. We see a minimum of a 50% upside.

Baidu

Baidu is the dominant internet search engine in China with a market share around 80% across desktop and mobile devices. On top of that, it has investments on some other businesses very well positioned in the Chinese internet ecosystem. A set of recent strategic decisions has hurt its reported earnings and the market is pricing the business as if these setbacks were permanent and it is allowing us to buy its core search business at 5x normalised earnings. We believe that these strategic decisions are either temporary or positive on the long-term and therefore have decided to initiate a position in the stock. We see a minimum of 40% upside.

Outlook

With the broader equity market trading at or above its long-term average valuation, it is difficult to claim equities as a group are cheap. In fact, we would argue that after a decade of low inflation aided by US tax cuts, a healthy consumer environment and cheap credit, the market multiples have in all likelihood an inflated denominator. Corporate profit margins, particularly in the US, have never been higher and the cost of debt has rarely been this low.

While we are always weary of leverage, thinking about the next 3 to 5 years we would be particularly careful in getting into investments that make liberal use of debt combined with high operating leverage. The unwinding of this relationship could be disastrous.

As always, we do not claim to have a particular edge in predicting the macro environment, but the slowing interest rate schedule in the US and renewed monetary commitment in Europe, as well as heightened geopolitical tensions, makes us wary to invest in anything that at its core relies on a specific interest rate environment.

As a result, we will continue focusing on bottom up, fundamental analysis, selecting companies that we think are obviously undervalued and whose future is largely under their own control. We will look for business where a variety of macro outcomes are priced in the stock, that way we make money for our investors even if things don't go as we hope. Paraphrasing Philip Fisher "Hope is not a strategy. It is like running through a dynamite factory with a lit match, you may live, but you are still an idiot..." Protection of capital is and remains our primary concern.

While markets overall do not appear particularly cheap, the spread of valuation between in-favour and out-of-favour stocks remains significant. Just think of how anything with "subscription" in the business model description trades at minimum 25x earnings, and how everything else perceived as old tech, capital intensive or discretionary trades in the teens or lower with much higher volatility. As value investors we will continue looking at both camps and find large disconnects between market perception and reality while always remaining faithful to our conservative projections.

The richest hunting grounds we can find at the moment are in Consumer Staples, Healthcare and Consumer Discretionary stocks, as well as unconventional areas of our Stable universe. As we mentioned in the past, roughly 30% of the market is composed of those sectors that are traditionally considered "stable", we think we can add an additional 10%-20% to our opportunity set by looking at companies that are allocated to other sectors, but in truth have demonstrably "stable" characteristics.

Contact us

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Important Information

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 Fund holds a concentrated portfolio which could mean that it will be volatile when compared to its benchmark.

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. SAH1019(114)0120UKInst