FOR PROFESSIONAL INVESTORS ONLY

Q1 2018

Quarterly Newsletter

Sanlam FOUR Global Equity Fund

Performance Review

In Q1 2018 the fund performed in-line with the broader equity index (after adjusting for midday pricing).

The majority of the positive performance came from our Energy, Financials and IT holdings whereas Consumer Discretionary saw our holdings underperform ‘rampant’ FANGS Amazon and Netflix.

Key Facts	
Fund AuM	£142.7m
Strategy AuM	£209.6m
Number of Holdings	55
Active Share	90.3%
Yield	2.8%
Tracking Error	3.1%
VaR	5.2%
% in cash	1.4%

	Inception	QTR	YTD	1Yr	3Yrs	5Yrs	Since Inception
A Accumulation GBP	27/04/11	-5.6	-5.6	-4.0	4.6	7.8	7.0
MSCI World		-4.8	-4.8	1.3	10.0	11.4	10.9

Performance beyond one year is annualised.

12 Months to	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
A Accumulation GBP	-4.0	35.4	-11.9	11.1	14.5
MSCI World	1.3	31.9	-0.3	19.1	8.4

Source: Sanlam FOUR, Morningstar and Lipper as at 31/03/2018.

Past performance is not an indicator of future performance.

Market Recap

Stocks retreated just over 1% in USD over the quarter. Equities continued into 2018 as they had during 2017, rising consistently on the back of strong global economic growth and the impact of US tax cuts. Confidence subsequently evaporated with rising bond yields on the back of unexpectedly high wage growth in the January jobs report. New Fed Governor Jerome Powell expressed confidence in the economy and suggested the FOMC would continue a gradual tightening path duly raising rates by 25bps.

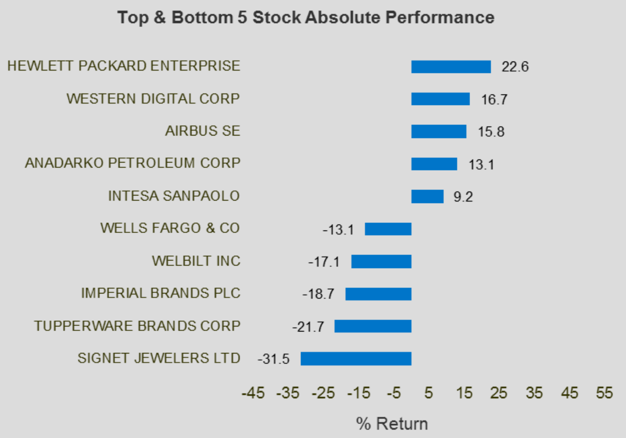
As confidence returned that inflation remained under control, the US president announced new trade tariffs on steel and aluminium following on from tariffs on washing machines and solar panels in January. Though key NAFTA and EU allies were excluded, fears of escalation and retaliatory reciprocal measures from China led stocks down again.

GDP data for Q4 in Germany and France was strong, but current PMIs have dipped. The ECB maintained negative rates and confirmed asset purchases at current levels. The overall tone remained dovish, as it did in Japan with the reconfirmation of Mr Kuroda for another term. Prime Minister Shinzo Abe was however damaged following a scandal.

China’s congress removed the term limit for President XI Jinping, effectively making him President for life. Premier Li Keqiang announced a 2018 growth target of “close to 6.5%”. The Congress also continued structural reforms aimed to reduce systemic risk by merging the banking and insurance regulatory bodies whilst moving legislative powers to the PBoC.

IT was the top sector led by Semiconductors, with Consumer Discretionary rising led by Amazon and Netflix. Telecoms, Energy and Consumer Staples were weak. Telecommunications is seeing lacklustre revenue growth, Energy declined despite the rise in oil as Exxon and Chevron disappointed with weak refining. Consumer Staples were weak with food producers, supermarkets and tobacco leading the fallers.

Performance Attribution



In Q1 the fund performed in-line with the broader equity index.

The majority of the positive performance came from our Energy and Financials positions where companies like Anadarko, ENI, Societe Generale and Intesa Sanpaolo were the primary contributors. Our primary industrial holding, Airbus also performed very well, as did our IT companies Hewlett Packard Enterprises and Western Digital.

Anadarko and ENI were lifted up by the recent rally in oil prices caused by US inventory declines. Western Digital continued benefiting from a tight NAND market leading to expanding margins. HPE had a strong quarter that reinforced the long term trajectory for the company's cash generation capabilities.

EPS guidance, dividend and buybacks were all increased as the company moves closer to a net cash position. Despite the inconclusive results of the Italian election, Intesa SanPaolo recovered all of the last quarter's underperformance as they unveiled a new 3y profitability plan.

The performance of the fund was held back mostly by our Consumer Staples and Consumer Discretionary companies, where Imperial, Tupperware, Signet Jewelers and WPP were the most notable underperformers.

Signet Jewelers in particular missed its full year numbers as they botched the transition to an outsourced credit IT system. Guidance suggested the need for more investment to reposition the business. While we think the company is definitely misunderstood, our thesis has changed since our initial investment.

Conversely WPP produced a reasonable set of full year results but disappointed with flat organic top line guidance for 2018, giving the market reasons to believe in the long term decline of the holding advertising model. We, however, remain convinced in the adaptability of this model and in the long term relevance of the company. What's more is that at 9x EPS and a 5% dividend yield we only have to be partially right and we get rewarded for waiting.

Market Outlook

Markets enjoyed their longest winning streak since the 2003-2004 rally on expectations of stronger economic growth, the promise of business-friendly fiscal and political reforms, and a gradual reduction in monetary stimulus. These factors, combined with a recovering European economy and a strong US consumer, pushed stocks to decade high valuation multiples. A more normal level of volatility has now returned, reminding those who had forgotten that 'stocks can go down as well as up'. Emerging concerns about wage inflation in the US and the prospect of an escalating trade war between the US and China have seen stocks retreat. Market-wide valuation multiples remain above long-term averages but are largely explained by still low bond yields. Pockets of the market are however pricing in stretched assumptions about growth and/or profitability and it is here we are wary.

While we do not dispute that operating conditions for many companies are improving, we do not believe we, or anyone else for that matter, have a consistent competitive advantage in making macro predictions. Therefore, we continue investing fundamentally with a margin of safety and stick to our principles of valuation and quality. In spite of elevated market levels, we continue to find good opportunities particularly amongst Financials, Healthcare, Information Technology and Media companies. As always, we expect that the true resilience and long-term earnings power of our companies will eventually be recognised, resulting in higher ratings and share prices.

For Financials, particularly banks, we anticipate rising underlying return on assets as legacy issues are resolved, deposit spreads increase, and capital goals are attained. Healthcare companies are continuing to see vertical consolidation as a solution to ever increasing healthcare costs. We expect some of the more strident pre-election rhetoric will get dialled down as the complexity of implementing policy in this area becomes more apparent. In IT we expect our holdings to remain largely immune from political machinations and enter periods of accelerated growth as they transition from investment/restructuring.

Overall the best predictor of future returns is valuation, and while the portfolio is invested in superior ROIC companies, it remains undervalued both in absolute terms (as assessed by our intrinsic value estimates) and in relation to market averages.

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Important Information