Sanlam Active UK Fund

Investments

Q4 2020 | Quarterly newsletter

Market recap

UK and Global stock markets rallied strongly in the final quarter of the year, driven by news that the Pfizer/BioNTech COVID vaccine was effective and approved. For the first time since nearly the beginning of the year, there were tangible signs of a clear path out of the crisis. There was further good news in the quarter with both Moderna and AstraZeneca/Oxford vaccines also proving effective at preventing the disease. These vaccines are being rolled out across the world and it is hoped, will bring an end to this crisis in 2021.

The UK market rallied strongly in the final quarter, with the MSCI UK up 10.6%, and the FTSE All Share up 12.6%. At a sector level, the market was driven by Consumer Discretionary, Financials and industrials, all sectors which had suffered disproportionately earlier in the year, and which will benefit from the full reopening of the economy.

Second waves of the virus were experienced in many parts of the world, including the UK, which re-entered various levels of restrictions and eventually another full lockdown late in the year. Given the vaccine success, the market is looking forward through these very serious - but likely short-term – second wave issues. It's worth remembering that the value of any listed share is the appropriately discounted value of all its cash flows into the future. Using some basic assumptions, less than ten percent of the value of the average company is reliant on its cash flows in the next two years. Looked at this way, the presence of scientific technology to end the crisis (in the form of effective vaccines) means that much of the rally in markets is justified – assuming the vaccines will control the disease. The risk is that mutations in the virus render the vaccines useless.

For the year, the MSCI UK Index was down 13.2%, and the FTSE All Share was down 9.7%. In spite of the strong rally from the lows, we do not believe that the UK market as a whole is necessarily overvalued, and many stocks remain cheap.

Fund review

We had very strong absolute and relative performance in the quarter, mainly driven by a relief rally on vaccine news. The fund was up 14.9% in the quarter vs. 10.6% for the Benchmark. Positive stock selection added 4.8% relative, while sector allocation and currency detracted by -0.5%.

For the full year, the UK fund outperformed by 7.2% net of fees, delivering an absolute return of -6.0%, while our benchmark (MSCI UK Index) returned -13.2%. We also outperformed the FTSE All Share Index in the year, which returned -9.7%. This strong result builds on the previous year's outperformance of 3.0%, where the fund returned 19.4% in absolute terms against the benchmark return of 16.4%. A negative return in any year never feels like a success, notwithstanding our strong outperformance of our benchmark. However, the end result is acceptable for a year in which the world suffered from a destructive brutal worldwide pandemic, which had not happened for one hundred years.

We are bottom-up stock pickers focused on buying (and holding) exceptional businesses, aiming to deliver exceptional risk-adjusted returns at the fund level. This was borne out with stock selection driving 8.6% of relative outperformance for the year, while sector allocation detracted 0.5% of relative outperformance. Sector allocation is not an explicit top-down decision, rather a by-product of investing in strong individual businesses, and also portfolio risk management. Stock picking was a positive contributor in seven of the ten sectors we were invested in.

We added no new positions to the fund in the final quarter, but bought a meaningfully increased position in Integrafin. We think the business is very well positioned in a structural growth industry, and the potential of the business is not fully priced in. The fund ends the year with twenty seven holdings, spread between nine of the eleven GICS sectors. We leave 2020 with four new holdings acquired during the market panic of 2020, namely Becton Dickinson, Conmed, Diageo and Rightmove.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
A Accumulation GBP	02/04/07	15.0	-6.0	-6.0	-0.2	3.9	4.3
MSCI UK		10.6	-13.2	-13.2	-2.7	4.1	3.6

Performance beyond one year is annualised

12 Months to	Dec-20	Dec-19	Dec-18	Dec-17	Dec-16
A Accumulation GBP	-6.0	19.4	-11.3	15.3	5.5
MSCI UK	-13.2	16.4	-8.8	11.7	19.2

Key facts

Fund AuM	£101.7m
Strategy AuM	£101.7m
Number of Holdings	27
Active Share	68.2%
Portfolio Yield*	1.6%
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

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 31/12/2020.

*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

For the quarter

We had very strong absolute and relative performance in the quarter, mainly driven by a relief rally on vaccine news. The fund was up 14.9% in the quarter vs. 10.6% for the Benchmark. Positive stock selection added 4.8% relative, while sector allocation and currency detracted by -0.5%.

Positive stock selection was driven by many of the stocks which had been affected most by the pandemic, namely Taylor Wimpey, Barclays and Rolls Royce. Each of these stocks was up over 50% in the quarter. Flutter group had another strong quarter, and new holding Conmed was up 35% from the very depressed levels where we established our position. Main stocks detracting were Sage, First Derivatives and new Holding Becton Dickinson, while stocks not held like HSBC and Royal Dutch Shell detracted as the economic outlook brightened.

In terms of sector attribution, Consumer Discretionary, Financials and industrials were positive, while Information Technology and Energy detracted.

For the year

The fund outperformed by 7.2%, with the fund down 5.9% against the Benchmark down 13.2%, FTSE All Share down 9.2%. Positive stock selection added 8.6% for the year, while sector allocation and currency detracted 0.5%. Flutter Entertainment and Integrafin contributed strongly, as well as stocks not held like HSBC, Shell and BP. Detractors were Lloyds and Rolls Royce, both in sectors severely affected by COVID.

In terms of sector attribution, Energy and Consumer Discretionary were positive, while Materials and our lack of any holdings in the Utilities detracted.

Outlook

The economic recovery from the April low had started in earnest as the UK and global economies started to open up, but the second lockdown and various new infectious variants of COVID have stalled that. UK GDP fell by 3% in Q1 2020, then fell by a record 19% in Q2, before a record rise of 16% in Q3. The country has been now again ordered to stay at home, as the vaccine program ramps up. There was very positive news late in the year with the UK signing a comprehensive free trade deal with the EU, while regaining full sovereignty, something many market commentators had proclaimed as impossible. This very good news, which brings a lot of certainty to UK businesses, was overshadowed by the renewed lockdown.

The incoming Biden administration in the US, along with its control of both the House and the Senate (through the Vice-Presidential deciding vote), should drive a stronger economic recovery in the US, and worldwide. We would expect more fiscal stimulus than would have been the case if the Republicans had held onto the Senate. The potential negatives are a likely increase of tax rates on US companies, though this is likely largely priced in to US equities. The unknown quantity is what increased fiscal stimulus and money printing mean for inflation and interest rates in the future – rising rates would put pressure on equity valuations. Net net, increased stimulus and vaccine success would lead to a strong economic recovery this year.

The 2020 calendar year represented a very big stress test for our fund and the companies in it, our process and our strategy, and we came through that test in very good shape. We used the sell offs last year to establish positions in four new high quality businesses, Diageo, Becton Dickinson, Rightmove and Conmed. Very encouragingly, three of the four have already added to our relative performance.

2020 was a reminder that predicting the future is very hard. We prefer to remain optimistic but grounded. If the vaccine programs are successful, the UK and the world should move back towards full economic activity. In that case, many of the companies we own in the fund should move much higher, given their current depressed share prices. While many companies in stock markets round the world are trading as if their futures are sure to be very bright, we find the opposite in many areas of the UK market. A number of companies in the fund are trading as if the UK economy will never recover. This builds in a large margin of safety. Our analysis on each of the companies that we own is that they are all likely to be important businesses in the years to come, and have strong market positions that protect them should the future not be as rosy as we hope.

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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. AB0121(243)0421UKInst.