Sanlam US Dividend Fund

Q1 2019 | Quarterly newsletter

Market recap

US markets advanced strongly in Q1 2019, gaining around 14% in their best first quarter since 1998. Immediately preceding this, US markets had lost around 14% in the fourth quarter of 2018 in what turned out to be the worst quarter since Q3 2011.

The quarter was characterised by the Federal Reserve's newfound dovishness, as well as the trade war and tariffs rhetoric between the US and China.

From a style perspective, while value again lagged growth in the first quarter it nevertheless made a respectable showing relative to the previous two years, advancing by around 12% in a feat not seen since 2016. Over one, three, five and even ten years, however, value has significantly lagged versus growth. The US Dollar continued to strengthen, while ten-year treasury yields fell further, moving down from 2.7% at the end of 2018 to 2.4% at the end of the first quarter. Yields had already fallen from 3% down 30bps during the fourth quarter of last year. The quarter also saw oil advance strongly.

Fund review

The fund advanced by just over 12% during the quarter, slightly lagging the markets, but still ahead of the value style and value and dividend benchmarks. This followed the strong outperformance in the fourth quarter of 2018. Given the market rebound and environment, the fund put up a strong showing. The 40% discount versus the markets remained intact.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B Accumulation USD	17/12/14	12.0	12.0	6.7	11.5	n/a	10.2
MSCI North America		13.8	13.8	8.5	12.6	n/a	9.4
A Accumulation USD	20/05/15	11.8	11.8	5.9	10.6	n/a	9.9
MSCI North America		13.8	13.8	8.5	12.6	n/a	8.7
A Accumulation GBP	30/12/14	9.3	9.3	13.9	14.4	n/a	13.5
MSCI North America		11.3	11.3	16.8	16.4	n/a	13.2

Performance beyond one year is annualised

12 Months to	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15
B Accumulation USD	6.7	10.1	17.9	8.3	-
MSCI North America	8.5	12.9	16.6	-0.4	-
A Accumulation USD	5.9	9.3	17.0	-	-
MSCI North America	8.5	12.9	16.6	-	-
A Accumulation GBP	13.9	-2.9	35.4	10.7	-
MSCI North America	16.8	0.6	34.0	2.9	-

Key facts

Fund AuM	$342.5m
Strategy AuM	$350.6m
Number of Holdings	60
Active Share	93.7%
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 V
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

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 31/03//2019.

*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.

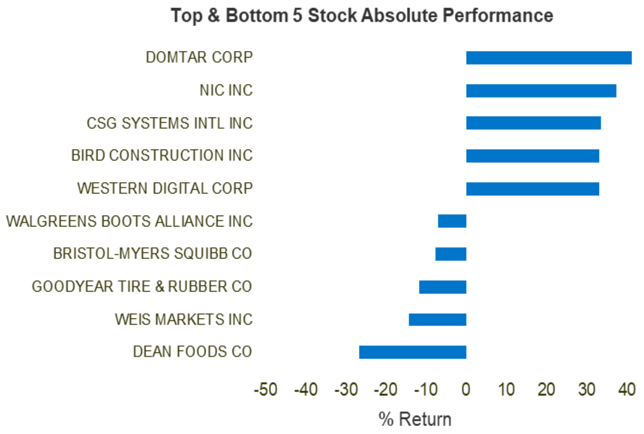
Performance attribution

The fund advanced 12%, slightly less than the markets during the quarter's strong rebound, despite running with 20% lower risk. The style headwind against value acted once again as the main driver. Sector allocation accounted for most of the relative differential performance, followed by stock selection. Currency exposure acted as a positive source of outperformance and performance was positive versus style.

The underweight in technology, namely the structural absence of the mega-cap high-growth, high-flyers, drove relative performance versus the markets. The addition of Apple early in the quarter, before it enjoyed a streak of outperformance, limited the damage however. On the positive side, the allocations in financials and communication services helped.

Stock selection was positive in most of the sectors but acted as a major drag in the consumer discretionary sector, in a reversal of last year's trend. Interestingly, and in a rare quarterly occurrence, the worst names were not fallers but rather small/single-digit advancers. Names that lagged the market rally included auto parts maker Gentex. Goodyear also had a bad quarter.

Positive stock picks were in abundance, led by Western Digital, which re-rated solidly following on from its 2018 sell-off. Commodity producer Domtar, another top loser in the fourth quarter of 2018, was also of the best stocks starting the year. Other strong stock picks included oil conglomerate Suncor Energy, further helped by its addition into Warren Buffett's portfolio.



While currency had acted as a negative in the past few years, it started 2019 on a strong note driven by a Canadian Dollar rebound.

Source: Bloomberg as at 31/03/2019.

Outlook

Following on from 2018 which marked the first down year for the markets since 2008, US markets had a great start to the year with the best quarterly advance since 1998. Price-to-earnings valuations remain off last year's highs, having moved up over the quarter from the 17 times reached at the end of last year towards 19 times.

While the market moved once again into hot territory, the portfolio remained cheap and at a major discount to the markets trading at less than 11.5 times price-to-earnings. This enabled an attractive 40% discount to the market. On a price-to-sales basis the discount was even larger, at about 60% - a number that had narrowed from the 70% levels of last year. We believe this makes the fund an ideal vehicle to invest in the US markets, with a low-risk and value approach.

The main narrative in the markets for us remains the ongoing and ever-widening underperformance of value vs growth. Over one, two, three and five years value is now massively lagging growth – by anywhere from 20 to 50%. This is a large differential from a historical perspective equitable with the internet bubble and nifty-fifty market environments. Over a ten-year investment cycle, the difference is a staggering 115%. We believe this bodes well for the style in the intermediate to long-term.

The fund has achieved the best risk-adjusted returns in its category since launch, and one of the best in the broader US equities universe.

Looking ahead we believe the fund will continue providing investors with the best US risk-return in US equities.

While the portfolio provides a lower-risk profile enabling downside protection, it also provides a high and attractive stream of income to equity investors in the meantime.

We continue to focus all our efforts on identifying, analysing and investing in undervalued North American equities with strong financial profiles and providing the best risk-reward for US equity investors.

Source: Bloomberg as at 31/03/2019.

Contact us

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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.