Sanlam FOUR US Dividend Fund

Performance Review

The Fund continued to outperform the markets in Q4 despite very bullish market conditions and a continued marked underperformance of the value style. Markets rose another 6,5% in the quarter. All three months showed a strong positive advance, capping a very solid year. Growth indices rose as much as 8% however, breaking the 30% advance level for the year, while value indices rose “only” 5%, paltry in comparison but strong in absolute terms reaching 13% for the year. This 17% differential between the two styles for the year was the widest observed since the dot com boom of 1999 and eclipsed value’s 10% outperformance over 2016.

The Fund had a great quarter, as in a rare show of occurrence it beat even the growth indices over the quarter, despite the massive outperformance of growth in strongly rising markets. Stock selection drove the outperformance. However, sector allocation continued to be a slight negative driven by style adversity, while currency exposure was neutral over the quarter.

The major theme of the year, which was the market leadership of what we deem speculative action in the form of high-growth technology stocks (Amazon, FaceBook, Netflix,etc.) continued to weigh on the Fund’s fourth quarter relative returns. Very strong stock selection, mainly from the consumer discretionary sector, more than offset any negative impact however.

Fund Characteristics	
Size	$269.8m
Tracking error	5.4%
VAR (ex-ante)	4.8%
Cash	7.6%
Holdings	62
Portfolio yield	3.1%
Active share	89.1%

Annualised	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B Accumulation USD	17/12/14	8.1	16.8	16.8	12.8	-	13.5
A Accumulation USD	20/05/15	7.9	16.0	16.0	-	-	13.9
MSCI North America		6.3	20.9	20.9	10.2	-	10.1
A Accumulation GBP	30/12/14	6.9	5.6	5.6	17.7	-	17.3
MSCI North America		5.4	10.4	10.4	15.5	-	14.8

	12 months to Dec 17	12 months to Dec 16	12 months to Dec 15	12 months to Dec 14	12 months to Dec 13
B Accumulation USD	16.8	22.7	0.2	-	-
A Accumulation USD	16.0	21.9	-	-	-
MSCI North America	20.9	11.6	-0.9	-	-
A Accumulation GBP	5.6	46.7	5.1	-	-
MSCI North America	10.4	33.1	4.8	-	-

Source: Sanlam FOUR, Morningstar and Lipper as at 31/12/2017.

Past performance is not an indicator of future performance.

Market Recap

It was an interesting quarter for the markets as our prediction for the year that markets will be dictated from Washington DC in 2017 proved to be accurate. As the tax reform legislation was passed into law, markets found the optimism to advance and build on the previous returns.

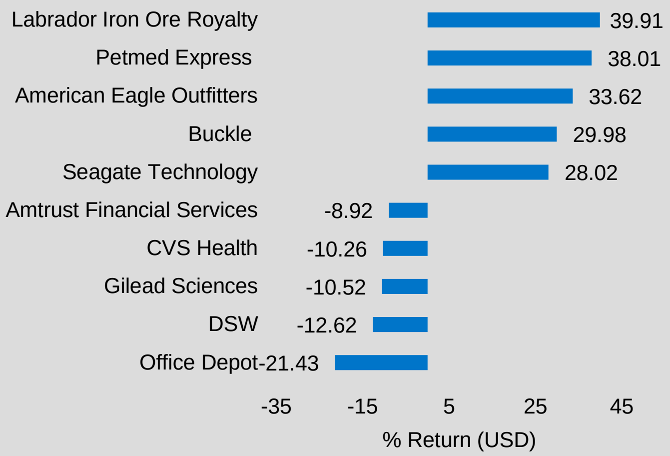
From a Sector standpoint, for the first time this year Technology did not act as the best sector and instead passed the leadership to Consumer Discretionary and Financials, both of which had lagged for the year.

Another major laggard for the year, Energy, also rebounded, especially in December as the oil price advanced. Industrials also had a strong quarter, capping a great year.

On the other end of the spectrum were yield-friendly sectors which suffered terribly: Consumer Staples lagged despite an activist investor making major headlines in Procter and Gamble. Utilities, Telecoms and Real Estate also had a very weak quarter, capping an underperforming year.
This said, a lot of the market action happened in the bond markets again, as the 10-year treasury yields rose to the year’s highest levels, before recouping some of the gains around the end of the quarter. Overall it was a great quarter for equity investors generally and for the Fund in particular.

Performance Attribution

Top & Bottom 5 Stock Absolute Performance



It was a noticeable quarter for the stock contributors; as much as three of the five underperformers announced plans for an acquisition and were subsequently punished by the markets.

Signs of free money starting to become less free? Or signs of management teams considering anything is permitted these days given valuation? Probably a bit of both.

CVS won the trophy of the worst stewardship of investors' capital by agreeing to acquire health care insurer Aetna. This had the benefit of making us realise why the stock was so cheap in the first place.

Gilead sciences also corrected after the price tag for their acquisition of Kite Pharmaceuticals proved difficult to justify.

Finally Office Depot, with a new management team on top, announced plans to acquire IT services provider CompuCom, taking the markets who were expecting the focus to be on an internal turnaround by surprise. Office Depot had performed very strongly prior to the acquisition.

From the positive contributors, three out of the five contributors this time came from Consumer Discretionary. Two out of the three were cheap apparel names catering to young age categories, namely Buckle and American Eagle Outfitters. Both advanced an astounding 60% over the quarter as the holiday season turned out to be less bad than expectations.

The best stock contributor came from the Materials sector, however, as a rebound in industrial metals saw this Canadian producer of iron ore post a strong advance. Petmed Express also acted strong, as a mix shift during the quarter to higher-priced products benefitted sales and margins. No name in the positive contributors came from a Defensive sector.

Market Outlook

US equity markets had a great year in 2017. They posted a ninth consecutive year of advances with 2017 being the third best. The value style of investment, however, has not been participating in this bull market and while 2016 showed a strong revival, 2017 put it back to sleep. Value has now underperformed growth by an astounding three-digit differential, or more than 100%, since the trough of 1999.

While no one can predict how much longer and wider this gap can go – except perhaps Benjamin Graham… where are you? - the next cycle should prove to be more propitious for value investing against growth. Interestingly, however, the average US growth manager could not outperform the growth benchmarks, and very few such managers did.

Despite achieving strong absolute and relative performance since launch, the Fund has been and remains firmly anchored in the value territory. It trades as cheap as it has ever traded versus the markets. The US equity markets are at record high valuations trading at 23x profits which, as conservative investors and responsible stewards of clients' money, makes us increasingly uncomfortable. Our Fund is trading at only 16 times profits. So while markets are expensive, the portfolio is not.

In addition, the portfolio is anchored into lower risk territory versus the markets, providing stronger downside protection while simultaneously providing above 3% income stream and higher quality metrics. The Fund should thus be the investment of choice for investors wishing exposure to the US equity markets.

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

The Power of Compounding Dividends

The Sanlam FOUR US Dividend Fund is managed with a value bias and a distinctive quality overlay, focussing on dividend sustainability and company valuation. One key reason for the dividend focus is because we appreciate how the compounding value of dividends is a notion more powerful than most investors realise. The compounding effects of a dividend drives significant but rather unnoticed value for shareholders. As time passes, a dividend reinvestment strategy starts to become the largest contributor to total return.

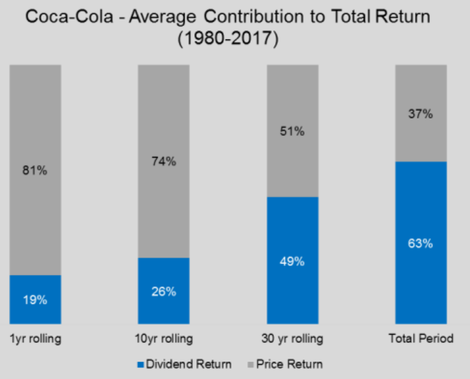
The following is an example of this effect on Coca-Cola but this specific example is generally the rule rather than the exception. Over time, it is the dividends paid in the early years that have the largest impact on total returns.

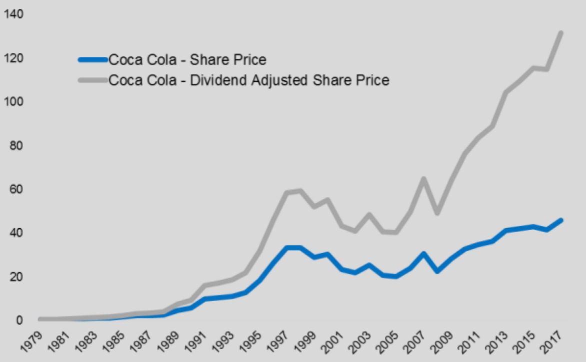
"Compound interest is the eighth wonder of the world. He who understands it, earns it... he who doesn't... pays it."

Albert Einstein

Consider the case where you bought 100 shares of Coca-Cola at the end of 1979. This investment would have cost about $3,500 and paid a dividend of about $216 the following year. A reinvestment strategy applied to this dividend alone would now be worth a bit more than $35,000; while a reinvestment strategy on the original principal would be worth substantially more, about $580,000 today.

Interestingly, the dividend received in the first year makes up about 6% of the total return. To put the effect of compounding into perspective, the dividends received in 2017 only account for about 1%. The compounding effect made the initial dividend (paid in 1979) worth nearly 500% more than the one paid in 2017.





Source: Bloomberg as at 31/12/2017.

The concept of compounding is indeed powerful over the long term. It is worth noting that the original investment in Coca-Cola would only be worth $220,000 today had you not reinvested. You would have earned dividends worth about $80,000 but you would still have missed out on $280,000 of profit.

Why would a company have a dividend policy? After all, can't there be better uses for that money? A strong dividend policy signals to the market management's confidence in the long-term sustainability of its business. It resolves principal-agent problems, as management is committed to paying shareholders directly a share of the profits, which in turn makes them more disciplined around capital management, as they need to plan better. This in turn greatly enhances shareholder value, in our opinion.

CONTACT US

WHOLESALE

Liz Adnitt
Sales Director
+44 (0) 20 3116 4071
Liz.Adnitt@SanlamFOUR.com

Alexandra Dacres-Hogg
Sales Manager
+44 (0) 20 3116 4041
Alexandra.Dacreshogg@SanlamFOUR.com

INSTITUTIONAL

Carole Costello
Head of Consultant Relations
+44 (0) 20 3116 4040
Carole.Costello@SanlamFOUR.com

Sanlam FOUR Investments UK Limited
1 Ely Place
London
EC1N 6RY

+44 (0) 20 3116 4000
www.SanlamFOUR.com

Important Information

Issued and approved by Sanlam FOUR Investments UK Limited ("Sanlam FOUR"), a limited liability company incorporated in England & Wales with registered number 5809399 and having its registered office at 1 Ely Place, London EC1N 6RY. Sanlam FOUR is authorised and regulated in the United Kingdom by the Financial Conduct Authority (FRN 459237) to undertake regulated investment business.

This document is intended as a summary only and is being provided for background purposes. It is provided to give an indication of the investment and does not constitute or form part of, and should not be construed as, an offer/invitation to buy or sell units/shares of Funds or Model Portfolios mentioned within nor a solicitation to purchase securities in any company or investment product. It does not form part of any contract for the sale or purchase of any investment.

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. 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. Collective Investment Schemes are traded at ruling prices and can engage in borrowing and scrip lending. Investments in collective investment schemes should always be considered as medium to long term. 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.

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 shown net of fees. Performance figures for periods longer than 12 months are annualized. The fund performance is from 12 noon to 12 noon, whilst index performance is close of business to close of business.

Please note that all Sanlam FOUR Funds carry some degree of risks which may have an adverse effect on the future value of your investment. Therefore, any decision to invest should be always made solely on the basis of the information and in accordance with the terms contained in the Company's Prospectus (and relevant Supplement), current Financial Statements of the relevant fund, Subscription Application Form and Key Investor Information Documents (KIIDs) that explain different types of specific risks associated with the investment portfolio of each of our products. Potential risks are disclosed in the fund's Supplement, details of annualised figures are included in the Prospectus. All these documents contain important information which should be read before investing in any fund. Any offering is made only pursuant to mentioned above offering documents all of which must be read in their entirety. 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. They can be obtained, free of charge, from the Manager, the Investment Manager or at www.sanlam.ie. Additionally, you should take independent professional advice as not all investments are suitable for all investors.

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. JR0118(06)0618 UKSA Inst.