Sanlam Investments

Sanlam Active UK Fund

Q2 2020 | Quarterly newsletter

Market recap

Equity markets have rallied strongly over the quarter in response to a steady reduction in the virus death rate in most developed countries. This in turn has permitted the gradual re-opening of economies, and indicators and data releases confirm that economic recovery is underway. Nevertheless, investors remain alert to the possibility of second waves of infection, as highlighted by the rising number of cases in several US states.

The economic impact of shutdown has been predictably severe, but the rapidity and massive scale of government spending to support workers and companies has been key to limiting the fall-out. Alongside unprecedented levels of central bank liquidity injections and bond purchases, these measures have undoubtedly averted a broader financial crisis and reassured investors that governments will spend whatever it takes to backstop the economy.

This combination of good news on the virus containment (so far), economic re-opening and copious liquidity has powered financial assets higher, but with a significant degree of variance between some obvious winners and losers. Technology and healthcare stocks have been consistent beneficiaries globally, with the former driving the NASDAQ index in the US to record highs. In the UK the listed global mining companies have been strong as gains in metals prices reflect anticipation of recovering demand and constrained supply from mine shut-downs. Precious metal strength also reflects longer term inflation risks from the explosion in money creation. Oil stocks remained laggards, however, despite a partial recovery in the oil price.

Investor enthusiasm for more economically sensitive recovery stocks waxed and waned over the quarter. Travel and leisure related businesses have seen tentative share price recoveries, as have retailers, house builders, banking and insurance stocks. In contrast, real estate remains deeply out of favour as the acceleration in trends for working from home and online shopping are expected to persist beyond the health crisis.

Fund review

The Fund outperformed the rise on the market over the quarter, delivering 12.2% return vs. 8.2% for the benchmark. Sector allocation was the main driver overall, helped mostly by the zero weighting in oil stocks. Stock selection made a significant positive contribution in the financials sector, and was also additive in healthcare and consumer discretionary groups, but detracted from performance in consumer staples and industrials. The main holdings contributing positively were Flutter Entertainment (US sport betting opportunity), Taylor Wimpey (house-building recovery hopes) and XP Power (resilient results and strong order books). Other strong performers were Barclays, Rio Tinto and Legal & General. In addition, not holding several large cap under- performers helped relatively, particularly HSBC, Royal Dutch Shell and BP. Key under-performing holdings that detracted from performance were the hotel stocks, Whitbread and Intercontinental Hotels, along with Lloyds Banking, Rolls Royce and Great Portland Estates. Not holding BHP and Reckitt Benckiser, which both performed strongly, also impacted negatively in relative terms. As the portfolio stands, we believe there is significant value in many of our holdings and expect that to become more reflected in the stock prices of our holdings as time goes by.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
A Accumulation GBP	02/04/07	12.2	-17.3	-12.6	-1.9	-0.2	3.5
MSCI UK		8.2	-17.7	-15.3	-2.3	2.4	3.4

Performance beyond one year is annualised

12 Months to	Jun-20	Jun-19	Jun-18	Jun-17	Jun-16
A Accumulation GBP	-12.6	-1.3	9.4	30.1	-19.6
MSCI UK	-15.3	1.6	8.2	16.7	3.4

Key facts

Fund AuM	£79.9m
Strategy AuM	£79.9m
Number of Holdings	25
Active Share	61.1%
Portfolio Yield*	2.8%
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 30/06/2020.

*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

The main feature of activity this quarter was the purchase of a new holding in Rightmove, the UK's leading property search platform. As recently as February this year, the stock traded over 700p per share, but we were able to buy a position at various prices below 500p a share. This high ROIC, high growth company is one we have wanted to own for some time, but the sell off gave us the opportunity to buy as valuation became attractive.

Another important change was the disposal of the last of our remaining positions in BP and Royal Dutch Shell. Having been underweight these oil majors for some time and gradually selling down, we took the view that these stocks now face immediate and significant structural challenges on several fronts. A lower oil price and reduced profitability impedes their ability to afford investment necessary to manage the clean energy transition.

Not dissimilar considerations also caused us to sell the rump of our position in British American Tobacco. In this case it is the ever declining numbers of smokers that is constraining profitability while so called "next generation products" (NGP's) are proving to be less popular than hoped with smokers and more complex regulatory considerations have presented marketing challenges.

Several holdings were marginally trimmed over the quarter following strong performance, most notably AstraZeneca, RELX, Integrafin and Rio Tinto. Conversely, we topped up existing positions in Taylor Wimpey, Diageo and Sage.

Also noteworthy is the fact that, thanks to a large inflow of new client money, the Fund has more than doubled in size over the quarter over and above the impact of market gains. Given that we believe the portfolio to be well positioned we saw fit to reinvest these new monies pro-rata, adding to all holdings in order to maintain the current "shape" of the portfolio.

Outlook

The intervention by governments and central banks in late March undoubtedly prevented a more significant market melt-down and seems to have adequately supported shut-down economies through the deepest and sharpest recession in history. Success in managing the gradual re-opening of economies while keeping the virus contained will be key to sustaining both an economic and stock-market recovery.

In contrast to the bearish stance of many commentators, we do not believe the market recovery so far to be disconnected from the admittedly challenging reality of a global economy struggling to recover. If the equity market is viewed as a market of stocks rather than a more abstract stock-market, and the share valuations of specific companies considered on their own individual merits, it is possible to see sense in the make-up of the current rally.

Most obviously, there is a wide dispersion in the performance of stocks and sectors that can be fully explained by their varying exposures to economic lock-down, near term and medium term growth prospects, cash flow resilience and balance sheet strength. There is no mystery behind the substantial gains to new highs of Nasdaq technology stocks such as Amazon and Microsoft.

Regrettably, the UK index has a minuscule representation in technology while oil stocks feature prominently, and this explains the underperformance relative to global indices. Investors are not being short term or excessive, merely attempting to fairly reflect persistent disruptive forces and accelerated structural change.

Add in to the mix the good news on the national containment of the virus by most responsible governments alongside the unprecedented levels of financial economic support to their economies and it is surely unsurprising that equities have rallied strongly.

Short of there being a global second spike, the most likely future path is for continued gradual economic recovery. Stock-markets still have ample scope to reflect this improvement, with large swathes of the market still depressed in valuation terms. Valuation is high by historic comparison, but for economically sensitive sectors the current year's earnings are irrelevant. Copious liquidity will support both economic recovery and equities.

Besides the virus, several other risk factors will need to be navigated in the second half of the year, most obviously Brexit negotiations and the US presidential elections. In the longer term, the challenge of paying for ballooning government debt and accompanying inflation risks may prompt bond investors to re-appraise the current yield structure, with valuation implications for all financial assets.

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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. AM0420(158)0720UKInst