

Sanlam Active UK Fund

Q3 2020 | Quarterly newsletter

Market recap

The UK market has been in a prolonged consolidation phase during the quarter, trading gently down throughout the period, in contrast to most other major equity markets, which only started to see profit-taking from the end of August. The MSCI UK Index ended the quarter down 4.6%, while the fund was down 1.1% over the period.

Economic recovery from the depths of lockdown has been predictably strong as previously shut-in businesses have re-opened. However, this had already been discounted by the stock-market rally from the lows in March, whilst the more recent market correction became entrenched as the viral infection rate jumped back up, particularly in the north. This prompted a series of renewed local lockdown and restrictions on the hospitality trade, while the vacillating government policy response has elevated uncertainty and hit confidence across the entire nation. The added delay to achieving a successful trade agreement ahead of Brexit looming at year-end has not helped.

The UK market has also suffered relatively as a result of its composition, with a heavy exposure to the poorly performing energy and financials sectors, and relative dearth of fast-growing technology stocks. While international investors might have worries about frothy valuations on the US markets there is certainly no accusation of irrational exuberance being levelled at the UK!

Globally, growth continues to be led by the recovery in China and the US (notwithstanding the fact that much of the USA is still in the grip of the pandemic). Sector-wise, manufacturing has generally recovered more strongly than services. Consumer discretionary and technology stocks have led the market, while the worst performance by some margin has come from the energy sector. Both BP and Royal Dutch Shell have struggled in the face of a weak oil price and the need to invest heavily in renewable energy technologies in order to transition their businesses towards a zero carbon future.

Fund review

The fund out-performed the MSCI UK benchmark over the quarter, driven both by positive stock selection, as well as sector positioning. The key components of the sector positioning were our zero exposure to the poorly performing energy sector and a commensurately overweight stance in consumer discretionary sectors. The positive stock selection contributions came from a combination of shares starting to recover from the pandemic-induced downturn, as well as a handful of high growth stocks that seem to have sailed through the recession. The main recovery situations so far have been Intercontinental Hotels, Rightmove and Howden Joinery, while the key growth stocks contributing positively were First derivatives, Flutter Entertainment, Integrafin and XP Power. Finally, our relative performance against the index also received a boost from not holding the oil majors, BP and Royal Dutch Shell, as well as HSBC, which has suffered badly from being caught in the middle of the Hong Kong political clamp-down imposed by China. The main stocks detracting from performance were generally those with most direct exposure to the UK domestic economy, namely Taylor Wimpey and our bank holdings, Barclays and Lloyds. In addition, Rolls Royce also suffered badly from sharply lower revenues at its civil aviation division as a result of restrictions on air travel caused by the pandemic.

Performance data

| | Inception | QTR | YTD | 1yr | 3yrs | 5yrs | Since Inception |
|-----------------------------|-----------|------|-------|-------|------|------|-----------------|
| A Accumulation GBP 02/04/07 | | -1.1 | -18.2 | -12.1 | -2.8 | 1.4 | 3.3 |
| MSCI UK | | -4.6 | -21.5 | -19.8 | -4.4 | 2.8 | 2.9 |

Performance beyond one year is annualised

| 12 Months to | Sep-20 | Sep-19 | Sep-18 | Sep-17 | Sep-16 |
|--------------------|--------|--------|--------|--------|--------|
| A Accumulation GBP | -12.1 | -0.1 | 4.6 | 16.0 | 0.7 |
| MSCI UK | -19.8 | 2.8 | 5.8 | 11.0 | 18.4 |

Key facts

| | |
|----------------------|-------------------------------|
| Fund AuM | £82.3m |
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| Number of Holdings | 27 |
| Active Share | 66.6% |
| Portfolio Yield* | 2.2% |
| 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 30/09/2020.

*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.

For professional investors only

Performance attribution

We were able to purchase two new exciting holdings in the quarter, which should contribute meaningfully to fund performance in the future. They are both medical devices and supplies companies, both US-listed. The fund is permitted to invest up to twenty percent of its capital into stocks not listed in the UK. Both these new holdings pass our quality filter with high returns on capital and growth potential, and both were bought at discounts to our estimates of their intrinsic value. They now comprise c. 6% of the fund between them.

Becton Dickinson is a global medical devices and supplies business with a long and prosperous history. They are global number 1 or 2 in each of their business unit categories, which includes mostly single-use consumable products in Medical (medication management, syringes/needles and infection prevention), Life Sciences (diagnostics tools and products for medical labs), and Interventional (surgery products, catheters, surgical mesh etc for vascular disease, cancers and renal disease). They have good core growth in the mid single digits driven by ageing populations and increasing access to healthcare in emerging markets. The company has experienced some temporary issues in a few product lines, weighing on the share price and allowing us to purchase our position, but we believe the core of the business is growing more than the market anticipates. It's a very high quality business with c. 40% Return on Tangible Capital, and the shares are undervalued.

Conmed is also a well-established company, but is much smaller, with more growth potential. It has the same overall growth drivers as Becton, but is a simpler business. Conmed has two segments, Advanced Surgical Products and Sports Medicine. The company has been reinvigorated by a very high-quality management team that came on board in 2015, and revenues are growing in the mid-upper single digits. The shares sold off heavily this year as COVID resulted in many hospitals stopping their normal surgical procedures. Surgeries will recover in time, but even more excitingly, Conmed has exposure to robotic surgery through their Air-Seal platform. Conmed could become a very much larger company in time, and we used the sell off this year to establish our position.

Outlook

The UK stock market remains depressed, with the MSCI UK Index down 21.5% year to date. This is partly a reflection of the composition of the UK market, which has heavy weightings to economically sensitive sectors like energy, financials, materials, and very little exposure to technology, unlike the US stock market. The economic recovery from the April low has started, but the pace and shape of that recovery remains uncertain, especially in light of rising cases of COVID in many parts of the UK in the past few weeks. The most depressed sectors of the economy, for example hospitality/tourism and aerospace, remain weak, and that is reflected in share prices of the relevant companies in those sectors. Additionally, the Brexit negotiations and the US Presidential election are likely to weigh on sentiment for the next few months. The timeline of the development of an effective vaccine is uncertain, but it remains a potential gamechanger in terms of allowing the world economy to open again.

We are encouraged by the fund's outperformance of the benchmark for the year to date, which has been a sorely trying one for investors. However, we remain well aware that the fund, while outperforming, remains down for the year by 18.2%. This is a matter of some frustration because we do not believe the companies we own (looking at the fund as a unit) are worth 18% less than they were at the beginning of the year.

We are high conviction investors with a quality overlay. This means that though we have a fairly concentrated fund in terms of numbers of holdings (27), every stock we hold is first and foremost assessed by whether it meets quality criteria. Owning better businesses tends to lead to better business outcomes over time, and as long as we do not overpay for them, better outcomes for their stock prices. Share prices follow fundamentals, and we think the fundamentals of the portfolio of stocks we hold are very attractive. We also remain well diversified, with holdings in nine of the eleven GICS sectors.

The extreme fluctuations this year may have been painful, but they have allowed us to purchase four very good new companies for the fund at valuations that we think will deliver very good long term returns. These new holdings year to date are Diageo, Rightmove, Becton Dickinson and Conmed.

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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. AM1020(213)0121UKInst