Sanlam FOUR Stable Global Equity Fund

Performance Review

In Q2 2018 the fund delivered a return of 1.7% in USD term, just behind its official CPI benchmark, but ahead of the broader equity index. The bulk of the positive performance can be attributed to our positions within our Health Care, IT and Consumer Staples holdings. Additionally, the fund's structural underweight to financials, European financials in particular was a meaningful relative tailwind.

Key Facts	
Fund AuM	$136.2m
Strategy AuM	$136.2m
Number of Holdings	29
Active Share	93.9%
Yield	2.7%
Tracking error	4.0
VaR	5.0
% in cash	1.9%

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B Accumulation USD	10/09/12	1.7	-1.7	0.9	4.4	8.4	10.3
MSCI ACWI - USD		0.5	-0.4	10.7	8.2	9.4	9.8
CPI +6%		1.8	4.2	8.7	7.9	7.6	7.6
A Accumulation USD	18/10/13	1.5	-2.1	0.2	3.6	n/a	6.0
MSCI ACWI - USD		0.5	-0.4	10.7	8.2	n/a	7.6
A Accumulation GBP	02/01/15	7.9	0.2	-1.5	9.8	n/a	8.9
MSCI ACWI - GBP		6.8	2.0	8.9	14.7	n/a	13.0

Performance beyond one year is annualised

12 Months to	Jun-18	Jun-17	Jun-16	Jun-15	Jun-14
B Accumulation USD	0.9	11.4	1.1	6.4	23.6
A Accumulation USD	0.2	10.5	0.4	5.6	-
MSCI ACWI - USD	10.7	18.8	-3.7	0.7	22.9
CPI +6%	8.7	7.9	7.1	6.0	8.2
A Accumulation GBP	-1.5	14.9	16.9	-	-
MSCI ACWI - GBP	8.9	22.2	13.3	-	-

Source: Sanlam FOUR, Morningstar and Lipper as at 30/06/2018.

Past performance is not an indicator of future performance.

Market Recap

Equities recovered ground during Q2 rallying 0.5% in aggregate but coming off higher levels on several occasions as macro-political worries escalated. Macro data shows the US is enjoying the lowest level of unemployment since April 2000. With inflation nudging higher, the Fed raised rates by 25bps but tightened its outlook with two further increases now expected for the year. European macro data has been weaker, justifying the ECB's dovish stance on maintaining negative rates and declaring an end to new QE stimulus by year end. The People's Bank of China (PBOC) lowered bank reserve ratios freeing up liquidity as US dollar strength and trade concerns hit the Renminbi.

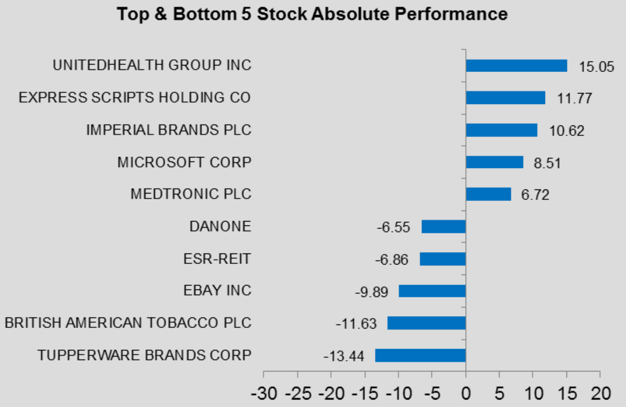
President Trump's campaign threat to impose heavy tariffs on Chinese goods moved a step closer with the imposition of tariffs on $34bn of goods out of a program of US$50bn, with suggestions of two further rounds of US$200bn to come. China responded with tariffs focusing on agriculture and autos. Europe responded on steel and aluminium tariffs with an increase in duty on EUR2.8bn on US goods.

The nervousness and negative sentiment had a relatively greater impact on exporting countries with Japan, China, Germany and South Korea all falling. Sectors and sub-sectors with complicated supply chains such as Industrials, Semiconductors and Autos also underperformed.

Political turmoil rocked Europe with Italy seeing an unlikely coalition between the anti-establishment left and populist right. Early fears of an anti-Euro position have been replaced by fears of an unfunded increase in government spending commitments. Spain also saw political turmoil with long standing PM Mariano Rajoy falling to a no confidence vote and replaced with an unlikely broad coalition of remaining parties. Elsewhere, Mexico saw the election of 'former' left-wing firebrand Andres Manuel Lopez Obrador and Brazil was volatile with a trucker's strike polarising the political debate ahead of elections in October.

Oil continued to rally as supply shortages in Venezuela and sanction induced shortages in Iran firmed up the market. Combined with a strong dollar, the impact on energy importing emerging markets was a clear negative. The disparity between 'growth' and 'value' indices continues with growth once again providing all the appreciation in markets with value remaining flat.

Performance Attribution



Source: Bloomberg at 30/06/2018.

Our positions within our Health Care, IT and Consumer Staples holdings generated the bulk of performance with UnitedHealth (+15.1%), Express Scripts (+11.8%), Imperial Brands (+10.6%) and Microsoft (+8.5%) delivering very strong returns. Medtronic (+6.7%) Nasdaq (+6.3%) and Reckitt Benckiser (+6.4%) were also notable contributors.

UnitedHealth continued its 5 year run as brokers kept upgrading the company's expected numbers on continued strength of the Optum Rx division and the company's exposure to Medicare.

Express Scripts resumed its positive trajectory as the regulator cleared the AT&T/ Time Warner merger, paving the way for a successful Cigna/Express Scripts takeover. Imperial Brands had a good quarter as it revealed new next generation products. Conversely, the fund was held back by a number of consumer staples and IT names including Tupperware (-13.4%), Oracle (-3.3%), eBay (-9.9%) and Danone (-6.5%). Tupperware in particular declined following lowered revenue guidance.

Oracle receded over lower than expected guidance and a reduced level of disclosure around its cloud business. However, the company continues posting strong level of cloud and licence maintenance growth which supports our thesis of double digit EPS growth in the near future. Similarly, eBay continues growing its top and bottom lines as well as its GMV figures but was hit in the quarter by a Supreme Court ruling declaring that cross state sales taxes could be implemented.

Over the quarter we initiated positions in Reckitt Benckiser and Merck while selling out of Verizon, whose role in the portfolio had become questionable. Reckitt is a long term compounder that has receded significantly over the past two years, on reasons that we believe are short term in nature; while Merck has a significantly undervalued immune-oncology franchise.

Market Outlook

After a strong surge over the last 18 months, the outlook for corporate profits is becoming more uncertain. We say this not from a belief in an economic crystal ball, but simply that the list of market areas with visibly depressed profits is getting shorter (primarily European financials and Energy) whilst those with above average historic profitability is lengthening. At the macro level, US profit to GDP is already comfortably above average and appears to have already rolled over. Economic growth forecasts remain positive (they always are!) but risks to profits from tight labour markets, rising commodity prices and interest rates are growing, not to mention the potential fall-out from a trade war.

Market valuations have contracted modestly in the face of these uncertainties, with aggregate valuations of world equity markets standing in-line with their historic averages. These market averages conceal a wide divergence, however. The market has sought 'safety' from increased economic worries by chasing the valuations of a handful of growth companies ever higher, whilst the valuations of many have been left to languish. This has left the spread of valuations in the market at wide level compared to history (but not quite yet at the 1999 peaks). This is a two-edged sword to investors; on the one hand, it provides the opportunity to build a portfolio of companies at attractive valuations but makes these market favourites increasingly vulnerable to disappointments.

Our investment process and disciplines lead us to maintain a 'belt and braces' approach to building a portfolio. Firstly, we only invest in companies with steadily growing non-cyclical earnings. This can mean we participate less in the 'peaks' of economic growth, but is intended to deliver a steady and more reliable cashflow stream over time. Secondly, we stick to a firm valuation discipline, allowing us to create a portfolio which is valued at significant discounts in terms of what we are paying for earnings, dividends or cashflows. This valuation discipline provides protection in tough market conditions and enables a 'lower economic risk' share portfolio to deliver superior real returns over time.

At present, we believe the portfolio offers a compelling proposition. It is valued at a significant discount to the wider equity market, and yet it is composed entirely of companies with high returns and less economic risk.

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