

# Sanlam Global High Quality Fund

Q1 2020 | Quarterly newsletter

## Market recap

The first quarter of 2020 was dominated by the outbreak of the coronavirus pandemic. This event has evolved into an event the likes of which investors have not had to deal with before. With the level of globalisation and inter-connectivity of financial markets it has left investors an extreme lack of visibility on how to model and analyse asset prices. The MSCI fell 15.54% in Sterling for the quarter which somewhat understates the extent of the pullback due to Sterling weakness.

The speed and velocity of the sell off has been spectacular. Many shares have seen retracements of more than 30% in a few weeks. This was after markets had enjoyed a buoyant start to the year up until mid February. The focus of the market once the effects of the virus became understood turned to corporate balance sheet strength and defensiveness of business models in this new world order. Not surprisingly the hardest hit sectors were those linked to areas such as travel and leisure.

## Fund review

The fund ended the quarter down 11.8% in Sterling, outperforming the MSCI index by over 3.7%. During the quarter performance was helped by having zero exposure to the Financials and Energy sectors as these were amongst the worst hit. We are pleased that we had reduced risk during the course of the first two months and were well rewarded for entering the bear market with a very healthy cash weight.

During the quarter we bought two new positions, in Accenture and SAP. These are two high quality businesses that we have wanted to own for a while. The sell off presented us with the chance to buy them at palatable valuations. SAP traded on a forward free cash flow yield of 6% as did Accenture at the time of purchase. Both are extremely well positioned within the secular growth sectors of IT service consulting and ERP system licence software. During the sell off we also added to our holdings in Diageo, Yum Brands, Heineken, Facebook and Alphabet.

## Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
<b>C Accumulation GBP</b>	28/02/14	-11.8	-11.8	-3.7	3.7	10.2	11.5
<b>MSCI World</b>		-15.7	-15.7	-5.8	2.2	7.0	8.9
<b>I Accumulation GBP</b>	24/06/16	-11.8	-11.8	-3.9	3.5	n/a	10.4
<b>MSCI World</b>		-15.7	-15.7	-5.8	2.2	n/a	9.4
<b>A Accumulation GBP</b>	02/01/15	-12.0	-12.0	-4.7	2.6	9.0	9.8
<b>MSCI World</b>		-15.7	-15.7	-5.8	2.2	7.0	8.2

Performance beyond one year is annualised

12 Months to	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16
<b>C Accumulation GBP</b>	-3.7	11.5	3.8	31.2	11.0
<b>MSCI World</b>	-5.8	12.0	1.3	31.9	-0.3
<b>I Accumulation GBP</b>	-3.9	11.3	3.6	n/a	n/a
<b>MSCI World</b>	-5.8	12.0	1.3	n/a	n/a
<b>A Accumulation GBP</b>	-4.7	10.4	2.7	29.9	9.8
<b>MSCI World</b>	-5.8	12.0	1.3	31.9	-0.3

## Key facts

<b>Fund AuM</b>	£545.7m
<b>Strategy AuM</b>	£1143.8m
<b>Number of Holdings</b>	30
<b>Active Share</b>	89.0%
<b>Portfolio Yield*</b>	2.8%
<b>Fund Managers</b>	Pieter Fourie William Ball
<b>Benchmark</b>	MSCI World
<b>Fund Launch Date</b>	28 February 2014
<b>Domicile</b>	Ireland
<b>Base Currency</b>	Sterling
<b>Fund Type</b>	OEIC, UCITS
<b>IA Sector</b>	Global
<b>Morningstar Category</b>	Global Large-Cap
<b>Dealing Deadline</b>	14:00 (GMT)
<b>Settlement Time</b>	T+3
<b>Valuation Point</b>	23:59 (GMT)
<b>Distribution</b>	Semi-Annually

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 31/03/2020.

\*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

In terms of attribution the fund's main detractors for the quarter were Sabre, ABI Inbev and Intercontinental Hotels. These shares have business models that are very directly impacted by the virus and the ban on most forms of non-essential travel. Sabre, as one of the leaders in airline travel booking management has been particularly hard hit. However, we believe the share price has dislocated from fundamentals.

In terms of stock selection, our best contributors were Tencent, Roche and Reckitt Benckiser. For various reasons these shares are less impacted by the virus. In the case of Tencent the lockdown in China has been seen as a net positive for online gaming and social media. As one would expect, names like Roche have been seen as a quality defensive earnings stream that should not see material impact in volumes from the shutdowns. It is still well positioned and remains a best-in-class R&D business with an exciting late-stage pipeline in broad range of therapeutics.

## Outlook

Global growth is undoubtedly going to be severely impacted by the effects of Coronavirus. The huge area of uncertainty is due to the fact that it is very hard to currently predict the timeline around its duration. With the market having recovered somewhat off its 23 March lows we feel that currently the market is discounting that this will be a two quarter impact on growth and then a moderate recovery off a depleted base.

As the virus continues to accelerate, revenues and cash flows are being meaningfully impacted and investors are coming to grips with the potential ramifications. The ability of some firms to service debt payments in addition to paying fixed costs like rent and staff wages is compromised when revenues fall. Investors are analysing and reassessing the impact on growth, appropriate valuations, and the impact on corporate balance sheets. Hence we are reminded again at times such as these why we always spend so much of our time on Balance Sheet strength in our assessment of companies.

On the positive side Central Banks and Treasury Departments around the world have been extremely quick and aggressive in how they have responded to this event. The size and scale of the stimulatory measures has been profound. Many of these actions are due to lessons well learnt by many in 2008. This should provide some stability to the initial impact of the massive drop-off in demand we will see in Q2. What is less clear is if we will be able to then grow off this more depleted base and if so at what pace.

There is a decent likelihood that much of this panic is already priced into stock prices especially in certain cyclical areas of the market. Our focus remains to rather be patient and buy better quality businesses once we feel their valuations are attractive on a long term basis. The temptation is always to buy these lower quality businesses especially given that in the sell off the quality businesses didn't become that cheap. They also were quick to recover off the lows we saw, as many investors grappled to own these more durable businesses in a new and uncertain world.

## Contact us

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## Important Information

The Fund may invest in companies based in emerging markets which may involve additional risks not typically associated with other more established markets such as increased risk of social, economic and political uncertainty. The Fund has holdings which are denominated in currencies other than sterling and may be affected by movements in exchange rates. Consequently the value of an investment may rise or fall in line with the exchange rates.

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](http://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](http://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