FOR PROFESSIONAL INVESTORS ONLY

Q3 2018

Quarterly Newsletter

Sanlam FOUR US Dividend Fund

Performance Review

The fund underperformed the benchmark in Q3 as US markets made a very impressive 7% advance over the period. Whilst value and dividend styles also advanced in Q3, growth continued to lead in what has become a very narrow market in terms of performance. This gave rise to the first companies (Apple and Amazon) crossing the one trillion dollar capitalisation mark.

The fund's underperformance was driven by a combination of sector allocation and stock selection. Our philosophy of only investing in companies with a strong dividend yield has led to a lack of exposure to technology's high flyers. We firmly believe this is correct in the long term but it has continued to weigh heavily on recent relative returns. In addition, the corresponding overweight to yield-friendly sectors did not help. Our stock selection in energy and materials was a strong contributor, however.

The fund remains very much in value territory with an average dividend yield of 3.5%, currently offering one of the greatest discount levels to the broader markets seen since launch.

Portfolio Characteristics	
AUM	$356.5m
No. of holdings	62
Active share	93.0%
Yield	3.3%
TE	5.9
VaR	4.9
% in cash	8.2%

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B Accumulation USD	17/12/14	3.0	3.4	11.8	17.0	n/a	11.7
MSCI North America		7.0	9.5	16.3	16.1	n/a	11.3
A Accumulation USD	20/05/15	2.9	2.8	10.9	16.3	n/a	11.6
MSCI North America		7.0	9.5	16.3	16.1	n/a	10.7
A Accumulation GBP	30/12/14	4.1	6.5	13.8	22.3	n/a	15.6
MSCI North America		8.3	13.6	19.7	22.0	n/a	15.7

Performance beyond one year is annualised.

12 Months to	Sep-18	Sep-17	Sep-16	Sep-15	Sep-14
B Accumulation USD	11.8	14.9	24.9	-	-
MSCI North America	16.3	17.6	14.4	-	-
A Accumulation USD	10.9	14.1	24.5	-	-
MSCI North America	16.3	17.6	14.4	-	-
A Accumulation GBP	13.8	10.5	45.5	-	-
MSCI North America	19.7	13.9	33.4	-	-

Source: Sanlam FOUR, Morningstar and Lipper as at 30/09/2018.

Past performance is not an indicator of future performance.

Market Recap

US markets had a very good third quarter, advancing in all three months for a total of return of 7% and building on the gains seen through the year. Markets are now up 10%, heading towards another positive year having trended higher ever since the February sell-off. This re-established the winning quarterly streak of the markets that started in Q1 2016.

It continues to be a tale of two markets with growth indices now up almost 18% for the year against some 4% for value indices.

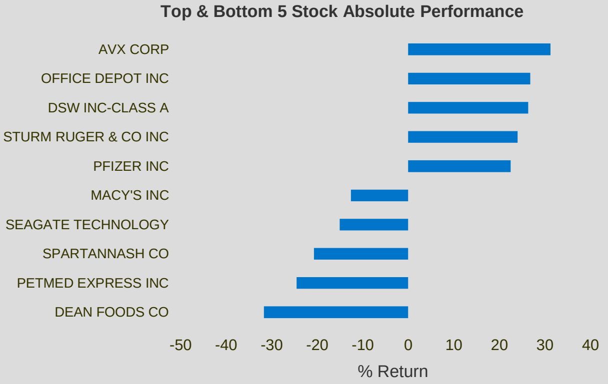
The focus of the quarter remained on trade tariffs. The Treasury rates advanced strongly over the period, moving from 2.85% at the start to 3.05% as we exited the quarter, thus breaking the 3% level and making for a welcome but gradual return to monetary normalisation.

Oil was very strong, leading commodities higher while gold and precious metals fell. The US dollar finished flat over the quarter, having advanced year-to-date and also intra quarter.

From a sector perspective the traditional growth sectors of technology and health care led the markets higher, while financials and consumer staples fell.

In M&A news Comcast acquired Sky plc, having lost the battle for Fox to Disney.

Performance Attribution



Source: Bloomberg as at 30/09/2018.

The fund returned 3.2% while the markets added 7% in Q3. This was principally due to adverse style effect which saw growth outperform and lead the markets again. Sector selection was also negative for the quarter.

The continued underperformance of consumer staples weighed on relative returns. Couple that with the persistent strong outperformance of technology and its mega-cap growth stocks, and all of the underperformance can be explained. Stock selection in the energy and materials sectors acted as positive offsets however, as well as the underweights in financials and industrials.

The Canadian dollar was also a positive this quarter.

During the quarter we increased our energy holdings, as the current $70 oil price environment should be beneficial for a few lagging oil services stocks. We also reduced our technology exposure slightly, as some names reached our valuation targets, such as our long-standing holding in Cisco. While we still appreciate the strengths of the company, we decided it was appropriate to book profits in this strongly outperforming value stock. With staples underperforming, we also found our exposure to the sector falling back slightly.

Other positive stock picks were in retail, including Signet Jewellers which rebounded strongly, and industrials where KBR benefitted from increased energy development activity.

Market Outlook

Although this strong quarter marks the tenth consecutive year of advance, the widely growing divergence between growth and value styles continues to create significant anomalies. Following on from the large underperformance of 2017 where growth advanced more than 30% against value's relatively paltry 13% (the fund did 17%), this year the style divergence continues. While no one (as far as we are aware) can predict how much longer and wider this gap can go, the next cycle may well prove to be propitious for value investing compared to growth.

The fund has very firm value credentials, trading at very significant discounts to the market, irrespective of the criteria one chooses to look at. They are significant in absolute terms and relative terms, with some of the widest ever seen in the history of the fund. We appreciate that many investors may be wary of investing in the US market at the moment due to valuation levels but we firmly believe that while markets are expensive, our portfolio is not. We are also confident that our strong results since launch will continue to make us stand out from the peer group as a truly differentiated and active US equity manager.

In addition, we believe that the portfolio will continue to exhibit lower downside risk than the markets, a facet of the fund which may come to be more valued as we head into what is likely to be a volatile period for markets, with rising bond yields and mid term elections having the potential to spook investors. We have this lower risk while simultaneously providing a higher stream of income of around 3.5%. This, we believe is a compelling risk/ reward opportunity for those seeking exposure to US equities currently.

We continue to focus all our efforts on identifying, analysing and investing in undervalued North American equities with a strong dividend yield that will provide the best risk/ reward profile for our investors.

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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