

**Sanlam Asia Pacific
Artificial Intelligence Fund**

Fund update
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Fund Manager



Past performance is not a guide to future performance

Source: Bloomberg, as at 28/04/2022

Above is the perf of the fund since launch. In short, not a pretty picture, but launched into the whirlwind of the Ukrainian invasion.

Most of the damage to performance was done during the first month of performance due to the focus of the fund on long duration stocks (interest rates and inflation) but also due to the existential angst that the market ascribed to all risk assets in the face of sanctions.

To break it down the fund is in line to better than the Chinese indices and slightly behind the Japanese and Korean markets. We do not benchmark against these indices, and they contain a majority of companies that would not be investible for the fund.

The fund was launched, and Russia invaded Ukraine a week later. This has focussed the markets globally on the risks of recession, interest rates and globalisation. To date, China has stepped back from doing anything to get its companies sanctioned. Chinese holdings have borne the disproportionate brunt of devaluation, from already depressed levels.

We believe that Asia-Pac, and China as the largest single market within that, are now mature enough to fund and sustain their own development. They have deep enough capital markets to raise the investments necessary to seed and then grow businesses. This has been in process since the GFC in 2008 when it became apparent to the Chinese government how dependent it was on a USD based global economy.

The trade war between China and the US preceded the invasion but the fundamental nature of it has been magnified by Russia's actions – this has thrown up valuation opportunities that are not explicable by the fundamentals of the individual companies.



The actions of the Chinese Government have arguably exacerbated this tough situation in their responses to covid and its tough lockdowns which will likely hamper growth for the next 6 months or so. While the consequences of this action are yet to be fully resolved we believe that the valuations of risk assets more than discount its seriousness and do not discount the resilience of the Chinese economy nor the government's ability to mitigate some of these risks for example the strength of its economy and in particular the consumer and the lack of inflation present in its economy. The Asian and particularly the Chinese economies are in very different positions than the more indebted western economies.

Covid disruptions are now something that investors have, unfortunately, learnt to deal with in general – while still throwing up individual company issues. Companies are also much more capable of dealing with the disruptions that the virus causes.

Therefore, we believe that valuations in China offer good value from here.

Finally, China is obviously a large component of the Asian market and economy – it is only around 36% of the fund, we are very capable of finding investments outside of the Chinese market should conditions deteriorate further, it will create opportunities elsewhere in the region.

This fund was launched with 2 simple long-term beliefs:

1. Adoption of AI, in the broadest sense, is a pre-requisite for success and indeed long term existence for almost all companies. This has been demonstrated clearly with the performance of AI Global over the last 5 years.
2. The Asia-Pacific region has already become a pre-eminent global hub for the development of AI platforms and the early adoption of AI in many areas of its economy.

Thirdly there is currently an extreme valuation disparity that is glaring and unsustainable on a medium-term basis. This has been created by the US-China trade war and exaggerated by the Ukrainian invasion.

Covid disruption and de-globalisation are now long-term trends that all investors are going to have to learn to navigate and will be factors in both valuations and opportunities/ costs for companies. The true consequences are still all to play for and will have different impacts for different industries.

When we did the first screen for AI companies 5 years ago the screen identified c.230 potential investments of which c.25 were in the Asia-Pacific region. Today that opportunity is over 10x that size.



Just searching Bloomberg for the opportunities in the US and Asia-Pac:

If we just search for *companies growing revenues >20% for last 5 years*

With market caps over \$5bn

APAC - 238 companies, Av Sales growth rates of 37% and you are paying 7x EV/SALES

US - 165 companies, Av Sales growth rates of 40% and you are paying 12 x EV/SALES

So overall there is a larger opportunity set in ASIAPAC – hence our excitement over the size of the opportunities in the region.

Overall, you are paying significantly less in AsiaPac for very similar levels of growth to the USA – hence our excitement over the valuation opportunity that the region presents today.

In APACAI we are currently paying <4x EV/SALES (mean) for 24% prospective growth and 17% trailing 3 years (this number includes the impact of COVID on growth obviously.)

In AI Global we are paying 8x EV/SALES trailing 3-year growth of 24% growth, and for prospective growth rates of 30% (mean.)

In Short: there are many ways to calculate value and growth, but Asia-Pac clearly has an abundance of opportunity and at a good relative valuation on a global basis.



Important information

The Fund invests mainly in equities (e.g. shares) and equity related securities of companies based in the Asia Pacific region therefore the value of the investments will be vulnerable to sentiment in that market. Exchange rate fluctuations may cause the value of investments to go down as well as up. Investing in companies based in emerging markets may involve additional risks due to greater political, economic, regulatory risks, among other factors.

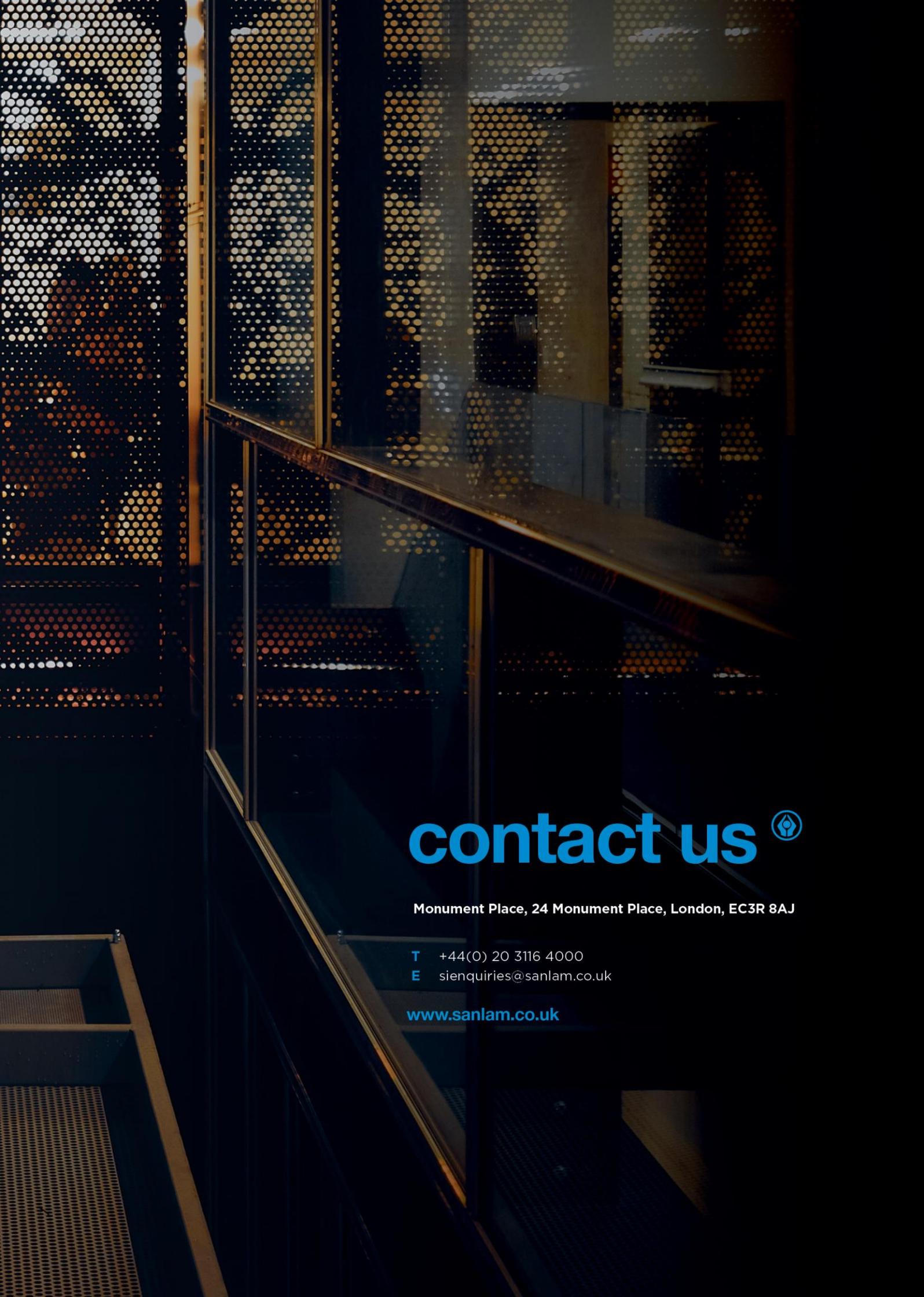
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A full summary of investor rights can also be found online at www.sanlam.com/ireland/Documents/SAMI%20Shareholder%20Engagement%20Policy.pdf. Documents are provided in English.

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