Sanlam Investments

Sanlam Global High Quality Fund

Q3 2019 | Quarterly newsletter

Market recap

With Brexit, the US-China trade war, and the real threat of recession looming large, equities experienced a summer of uncertainty and bond yields plunged. As central banks kept borrowing conditions supportive of business growth, investor concerns were eased, and markets were back on an even keel by the quarter-end.

The rally in equity markets this year has dominated by the US equity market again, following a similar pattern witnessed over the last few years. US equity markets are up 25% in sterling terms this year versus 22% returns from the global equity market. This year's US equity rally has been nearly entirely driven by the average equity getting more expensive which leaves equities vulnerable to any back-up in bond yields which was noticeable in September.

Fund review

The fund returned 2.54% in Sterling terms for the quarter versus the MSCI World's 3.85%. We maintained a healthy cash weighting in the quarter which actually added to performance for the period. We used periods of weakness to add to shares we already owned. Over the period, not having exposure to financials and utilities detracted from performance. On the positive side having no exposure to energy benefited performance.

During the third quarter we added to our positions in British American Tobacco, IHG, Imperial Brands, Reckitt Benckiser, Samsung, Tencent and Fresenius Medical Care. All of these holdings offer compelling valuation upside to our assessment of fair value. In most cases the shares were added to on share price or market weakness.

We trimmed our position in Medtronic as it started to approach our assessment of intrinsic value. The name remains a core holding however as we believe it can deliver high single digit earnings growth.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
C Accumulation GBP	28/02/14	2.5	18.6	9.3	11.4	15.9	15.1
MSCI World		3.8	21.5	7.8	12.2	13.2	13.0
I Accumulation GBP	24/06/16	2.5	18.4	9.1	11.2	n/a	16.4
MSCI World		3.8	21.5	7.8	12.2	n/a	16.5
A Accumulation GBP	02/01/15	2.3	17.6	8.2	10.3	n/a	13.9
MSCI World		3.8	21.5	7.8	12.2	n/a	12.8

Performance beyond one year is annualised

12 Months to	Sep-19	Sep-18	Sep-17	Sep-16	Sep-15
C Accumulation GBP	9.3	10.5	14.6	38.8	8.9
MSCI World	7.8	14.4	14.4	29.9	1.6
I Accumulation GBP	9.1	10.3	14.3	n/a	n/a
MSCI World	7.8	14.4	14.4	n/a	n/a
A Accumulation GBP	8.2	9.4	13.4	37.3	n/a
MSCI World	7.8	14.4	14.4	29.9	n/a

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 30/09/2019.

Key facts

Fund AuM	£488.9m
Strategy AuM	£1180.0m
Number of Holdings	33
Active Share	90.0%
Portfolio Yield*	2.4%
Fund Managers	Pieter Fourie William Ball
Benchmark	MSCI World
Fund Launch Date	28 February 2014
Domicile	Ireland
Base Currency	Sterling
Fund Type	OEIC, UCITS
IA Sector	Global
Morningstar Category	Global Large-Cap
Dealing Deadline	14:00 (GMT)
Settlement Time	T+4
Valuation Point	23:59 (GMT)
Distribution	Semi-Annually

Performance attribution

In terms of attribution the fund's main detractors for the quarter were Sage and Fresenius Medical Care. Sage released results in late July which slightly underwhelmed the market. However, this was on the back of the share having appreciated sharply this year. Fresenius has been weak as results were also slightly below expectations and also Euro area general market weakness has weighed on the counter. This share trades on a 7.5% free cash flow yield and we have added to it as it presents appealing value to us at this level.

In terms of stock selection our best contributors were Medtronic, Alphabet and Booking Holdings. Medtronic has received somewhat of a rerating this year as it delivered solid operational performance. We feel that the share still offers upside and the valuation is justified. Alphabet and Booking also both performed well in a weak market. These two shares both showed solid revenue growth in sectors that continue to show long term structural growth. All of the above names continue to be top 10 positions in the fund and we continue to see value in the shares.

Outlook

Global interest rates are likely to remain lower for longer, and these low rates could even become a permanent feature of capital markets. This is good news for business, and for government spending, and might mean the difference between a full-blown recession and a mere slowdown in economic growth. But even if we are headed for a global recession, the fact that we're neither in the middle of a banking crisis or a valuation bubble means there are lower associated equity losses. Equities are not obviously mispriced, but it is critical that earnings growth is achieved for the asset class to provide acceptable returns from here. The threat of a slowing economy will make this harder to deliver.

By bringing in new names in to the portfolio over the last year we continue to maintain our valuation discipline even in the face of ever increasing multiples for high quality businesses.

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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.

Issued and approved by Sanlam Investments which is authorised and regulated by the Financial Conduct Authority. Sanlam Investments is the trading name for our two Financial Conduct Authority (FCA) regulated entities: Sanlam Investments UK Limited (FRN 459237), having its registered office at 24 Monument Street, London, EC3R 8AJ and Sanlam Private Investments (UK) Ltd (FRN 122588) having its registered office at 16 South Park, Sevenoaks, Kent, TN13 1AN.

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. _SAH1019(109)0120UKInst