

Sanlam FOUR Active UK Equity Fund

Performance Review

The fund underperformed the benchmark in the quarter as a result of the net effect of stock selection factors. There were no dramatic moves but underperforming stocks simply outnumbered those outperforming the market. The largest negative impact came as a result of Sophos shares falling in response to a reported slowdown in sales, while IQE continued to suffer from a concerted shorting effort despite the company reiterating bullish sales and profit expectations. Not holding AstraZeneca also impacted negatively as the stock rallied on rising hopes for the company's immuno-oncology drug pipeline.

Whitbread provided the most significant positive impact on the news that Costa Coffee was to be sold to Coca Cola for a price well in excess of analysts expectations. Also benefiting was Wood Group, following a reassuring trading update. Other gainers were John Laing, rallying from rights issue technical weakness in Q1, BT on the news of management change, and Micro Focus benefiting from the sale of a software business and share buy-back.

Portfolio Characteristics

TE	2.7%
VaR	5.0%
% in cash	0.5%
No. of holdings	41
Aum	£32.7m
active share	57.5%
yield	4.5%

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
A Accumulation GBP	02/04/07	-2.8	-1.5	4.6	6.9	3.9	5.1
MSCI UK		-0.4	0.9	5.8	11.6	6.8	5.2

Performance beyond one year is annualised.

	12 Months to	Sep-18	Sep-17	Sep-16	Sep-15	Sep-14
A Accumulation GBP		4.6	16.0	0.7	-5.5	4.8
MSCI UK		5.8	11.0	18.4	-5.9	6.0

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

Past performance is not an indicator of future performance.

Market Recap

The third quarter of 2018 has seen the UK market drift off again, in line with other European markets. Interestingly, global market returns have been surprisingly diverse with strong economic growth driving the US higher and Japan also gaining on the back of stimulus measures. In contrast, Pacific ex-Japan and emerging market equities have been weak.

The strong US economy, consequent tightening of monetary policy and support for the US dollar are now creating an increasingly divided and potentially unstable global economic backdrop. The US trade war with China has also become a more serious factor that is dampening "animal spirits" outside the US.

In the UK the lack of progress on Brexit negotiations is worrying at this late stage. Although headline UK economic growth appears satisfactory, confidence has undeniably been impacted by this uncertainty. This is evident in the poor relative performance of sectors exposed to the domestic economy, such as construction, real estate and electricity utilities. In contrast, the top performer was healthcare, which benefits from defensive international earnings.

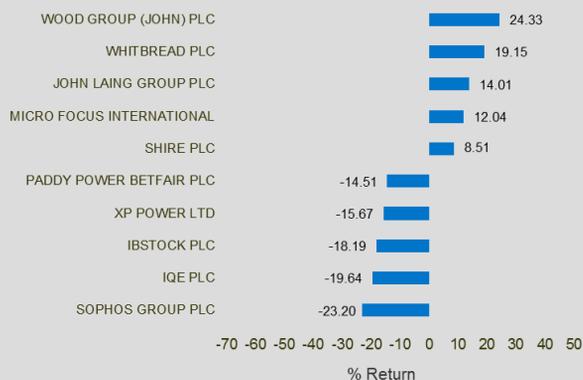
A rising oil price has also been a notable feature, particularly towards the quarter end. This helped the performance of the oil and gas sector, and oil services companies.

Notwithstanding the overall reasonable level of global economic growth, investor sentiment has become more cautious, with risks seeming to be more elevated. This somewhat skittish mood is reflected in the "risk off" climate, with many economically sensitive industrial stocks being de-rated, partly due to trade war concerns, but also on the simplistic basis that this economic cycle is now very mature and therefore surely at risk of faltering.

The UK environment reflects the combination of these global risks and the confusion of an uncertain Brexit outcome. This has resulted in equity valuations falling to levels that might ordinarily be regarded as cheap, but without clarity on a Brexit deal investors have continued to shun many of these value opportunities. The relative weakness of banking stocks and housebuilders perhaps best illustrates this dilemma facing investors.

Performance Attribution

Top & Bottom 5 Stock Absolute Performance



Source: Bloomberg as at 30/09/2018.

The fund underperformed during the quarter as a consequence of the net effect of stock selection factors. Several significant positive contributors were insufficient to make up for a larger number of negative impacts.

The main positive impact came from our large holding in Whitbread as the shares rallied strongly on news of the agreed sale of Costa Coffee to Coca Cola for £3.9 billion. This price is around £1bn more than the value that had been attributed to this business previously, thus prompting the 19.1% rise in the shares.

Other positive factors were gains in Wood Group (+24.3%) on the back of strong H1 results, which showed the benefits coming through from the acquisition of Amec Foster Wheeler completed a year ago. Also gaining were BT Group, Micro Focus, Hipgnosis Songs (see later) and John Laing, which recovered from the earlier technical weakness triggered by the large rights issue in Q1.

On the negative side the main factor was continued profit taking in our technology holdings, namely IQE (-19.6%), Sophos (-23.2%) and First Derivatives (-11.2%). Together, these three stocks detracted nearly 1% from performance. All three continue to see strong underlying growth and we remain confident in their

prospects.

Several of our domestic UK exposed companies suffered from concerns surrounding trading prospects and Brexit related economic risks, including ITV, Ibstock, Tui, Howden Joinery, Crest Nicholson and Great Portland Estates.

Finally, not holding AstraZeneca detracted from relative performance as this large index constituent (3%) gained 14.8% on enthusiasm for the delivery of the new immuno-oncology drug pipeline.

Key purchases

- **Hipgnosis Songs:** this is the first UK listed music royalties fund. It holds a diversified catalogue of premium songs and is set to capitalise on the new tech-driven monetisation model, with streaming revenue having grown by 48% p.a. over the last five years, a trend that is set to continue.
- **CRH Holdings:** this is a leading global building materials group operating principally in the US and Europe. The group is strongly cash generative and well positioned to benefit from US infrastructure spending, European recovery and portfolio restructuring opportunities. The shares are cheaply rated at a significant discount to US peers.
- **Anglo American:** this globally diversified miner provides exposure to copper, coal, iron ore, platinum and diamonds. While still playing catch up with the likes of Rio Tinto and BHP in terms of raising productivity and cash returns, this is an opportunity that is now being grasped. The stock trades at a 20% discount to its larger peers and is vulnerable to corporate activity.

These purchases were funded by the disposal of Glencore, which is likely to be dogged for some time by the US DOJ investigation into fraud and money laundering. We also took the remainder of our profits in Sainsbury following the ASDA deal. Finally, we sold out of Vodafone, having already moved underweight, on reflection of our longer term concerns for low returns in the face of intense competitive and technological pressures to restrain pricing despite needing to sustain a high rate of capex.

Market Outlook

Global economic growth trends remain intact for the foreseeable future, notwithstanding numerous risk factors, most notably US monetary policy tightening and aggressive trade policy. That being said, although the US economy is clearly strong, growth elsewhere is more moderate and this much more desynchronized state of affairs presents growing risks. The stronger dollar emanating from US strength and policy tightening, both exacerbated by the fiscal stimulus impacting from the start of this year, is destabilizing for dollar indebted emerging markets, while Chinese currency weakness only serves to inflame a more belligerent US approach to trade. Market weakness therefore is reflective of risks to growth even though there is no immediate threat and current momentum is secure. Monetary policy can remain accommodative in most of the rest of the world, even as the US Fed needs to respond to domestic growth.

As US short rates continue to rise put further near term upward pressure on long bond yields, at some point bond investors will believe that enough has been done and the risk of a Fed policy mistake will undermine equity confidence. At the time of writing we are currently witnessing a minor version of this but equities are likely to recover given the still favourable near term growth outlook. It is nevertheless a warning that excessively strong US growth is a double edged sword for markets.

In the meantime the UK and Europe can continue to haggle over the terms for Brexit and the uncertainty will continue to weigh on consumer, corporate and investor sentiment. Any deal will do at this point to restore confidence!

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

The Fund invests geographically in a narrow range, there is an increased risk of volatility which may result in frequent rises and falls in the Fund's share price. 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. Sanlam Investments is the trading name for our two Financial Conduct Authority (FCA) regulated entities: Sanlam FOUR Investments UK Limited (FRN 459237), having its registered office at 1 Ely Place, London EC1N 6RY 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 has appointed Sanlam FOUR Investments UK Ltd as Investment Manager to this fund.

This document is provided to give an indication of the investment and does not constitute an offer/invitation to sell or buy any securities in any fund managed by us nor a solicitation to purchase securities in any company or investment product. It does not form part of any contract for the sale or purchase of any investment. The information contained in this document is for guidance only and does not constitute financial advice.

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 FOUR 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 FOUR 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, the MDD 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.

This document contains information intended only for the person to whom it is addressed or presented (Investment Professionals, defined as Eligible Counterparties or Professional Clients), and is intended for evaluation purposes, with no licence to use the content or materials within. It must not be distributed to general public, or relied upon by Retail Investors.

The opinions are those of the author at the time of publication and are subject to change, without notice, at any time due to changes in market or economic conditions. Whilst care has been taken in compiling the content of this document, neither Sanlam FOUR nor any other person makes any guarantee, representation or warranty, express or implied as to its accuracy, completeness or fairness of the information and opinions contained in this document, which has been prepared in good faith, and to the fullest extent permissible under UK law. Some parts/sections of this document may be compiled from external sources. Whilst these sources are believed to be reliable, the information has not been independently verified and is subject to material amendment, revision and updating, therefore no representation is made as to its accuracy or completeness. No reliance may be placed for any purpose whatsoever on the information, representations or opinions contained in this document nor shall it or any part of it form the basis of or act as an inducement to enter into any contract for any securities, and to the fullest extent permissible under UK law no liability is accepted or any such information, representations or opinions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Statements in this document that reflect projections or expectations of future financial or economic performance of a strategy, or of markets in general, and statements of any Sanlam FOUR strategies' plans and objectives for future operations are forward-looking statements. Actual results or events may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statement. Important factors that could result in such differences, in addition to the other factors noted with forward-looking statements, include general economic conditions such as inflation, recession and interest rates, political or business conditions or in the tax or regulatory framework in the UK or other relevant jurisdictions, any of which could cause actual results to vary materially from the future results implied in such forward-looking statements. No assurance can be given as to the future results that will be achieved.

Sanlam FOUR makes no representation as to whether any illustration/example mentioned in this document is now or was ever held in any Sanlam FOUR Fund or Model Portfolio. Examples / Illustrations shown are only for the limited purpose of analysing general market, economic conditions or highlighting specific elements of the research process.

All of the information herein should be treated as confidential material with no less care than that afforded to the addressee's own confidential material of the most sensitive nature.

Neither Sanlam FOUR nor any other person accepts responsibility or liability whatsoever for any loss howsoever arising, either directly or indirectly from any use of this presentation or its contents or otherwise arising in connection therewith. It should not be copied, faxed, reproduced, divulged or redistributed or passed on, directly or indirectly, to any other person or published in whole or in part, for any purpose, without the express written consent of Sanlam FOUR.

This document may constitute material non-public information, the disclosure of which may be prohibited by law, and the legal responsibility for its use is borne solely by the recipient.

There is no certainty the investment objectives of the portfolios or strategies mentioned in this document will actually be achieved and no warranty or representation is given to this effect.

Sanlam FOUR funds mentioned in this document are only available for sale in certain jurisdictions. For the avoidance of doubt, this document is not intended to promote these Funds to any person in any jurisdiction where such promotion is not permitted under applicable laws and regulations. Potential investors in these Funds should inform themselves of the applicable laws and regulations of the countries of their citizenship, residence or domicile and which might be relevant to any type of transaction in shares/units of our Funds. By accepting the terms of this disclaimer, you expressly acknowledge that you are, as the case may be, an investor who is legally or otherwise duly authorised to seek information about our Funds. JR1018(79)0119 UKInst