Sanlam Investments

Sanlam Active UK Fund

Q1 2021 | Quarterly newsletter

Market recap

Building on a strong Q4 recovery last year, MSCI UK was up 5.2% in Q1, vs 3.9% for the fund. Good news on the Brexit deal at the end of 2020 was overshadowed by a resumption of a number of months of lockdown in the UK. In spite of this, the market looked through the short-term issues and took the view that humans would eventually learn to live with the virus and that normal life will resume at some point. There was also demonstrable progress on the vaccine rollout in the UK and elsewhere.

The four-stage reopening plan for UK economy is well underway and economic activity is picking up. Vaccine success gives the UK economy every chance of a return to relative normality sometime this year. We expect improving conditions to be reflected in the operations of the businesses we own, and the market to focus again on the long-term free cash flows they will generate. We were pleased by the overall 2020 full year results our companies reported during the first quarter – given extraordinary conditions faced since the pandemic began.

There was some market rotation globally out of growth companies into more traditional cyclical companies in Q1. This was driven by yields in the US going up a little faster than the market expected, reflecting nervousness around the sheer amount of stimulus planned by the Biden Administration, and its possible inflationary impacts down the road globally. It was also driven by positive developments in vaccine rollouts and increased interest in post pandemic "reopening" stocks which had been left behind last year.

We are keenly aware of the risks inflation may bring. On the whole, we believe our approach on focusing on higher quality businesses (which by definition either have pricing power, or are less capital intensive, or both) should enable the fund to cope relatively well in an inflationary environment.

Fund review

The fund delivered 3.9% for the quarter, vs 5.2% for the benchmark MSCI UK Index in Q1 2021. Stock selection detracted while allocation as a positive (see performance section for detail).

As ever we own a concentrated portfolio of higher quality stocks with market leadership, diversified across a number of sectors. Our buy and hold approach continues, with very low turnover and only one new position added to the fund in Q1 – AJ Bell. AJ Bell has strong market positions in the platform wealth business, operating platforms in both on the direct-to-customer side as well as the advisor side. We think that the long-term growth potential for the company is underappreciated. It has all the characteristics we look for – high returns on capital, strong growth, good balance sheet, and a valuation that makes sense.

We also sold completely out of GlaxoSmithKline. We have been underweight the shares for some time. While we like their vaccines business, they have struggled with the pharma side, which makes up most of group revenues. We also believe their balance sheet has too much debt for a business with a high need for investment to grow. We added slightly to Rolls Royce and Lloyds Bank in Q1, taking the view that they remain undervalued.

While we lagged the index slightly in the first quarter, we are encouraged that we have outperformed our benchmark by 12.6% over the past twelve months, with a stunning 32.6% bounce-back over the past 12 months.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
A Accumulation GBP	02/04/07	3.9	3.9	32.6	3.8	5.9	4.5
MSCI UK		5.2	5.2	20.0	1.5	5.2	3.9

Performance beyond one year is annualised

12 Months to	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
A Accumulation GBP	32.6	-20.2	5.9	1.3	17.4
MSCI UK	20.0	-19.1	7.6	-0.2	23.5

Key facts

Fund AuM	£127.2m
Strategy AuM	£127.2m
Number of Holdings	31
Active Share	70.1%
Portfolio Yield*	1.5%
Fund Managers	Chris Rodgers Andrew Evans
Benchmark	MSCI UK
Fund Launch Date	02 April 2007
Domicile	Ireland
Base Currency	Sterling
Fund Type	OEIC, UCITS
IA Sector	UK All Companies
Morningstar Category	UK Flex-Cap
Dealing Deadline	11:00 (GMT)
Settlement Time	T+3
Valuation Point	Midday (GMT)
Distribution	Semi-Annually

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 31/03/2021.

*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

Looking at performance analysis, the 3.9% vs 5.2% on our benchmark in Q1 2021 was driven mainly by stock selection factors (-1.9%), while sector allocation was a positive 0.5% (these figures are before fees). Looking over one year, the 12.6% outperformance was driven roughly equally by both stock selection and allocation. I remind our investors that sector allocation outcomes are more a result of bottom up stockpicking and risk management, not top-down allocation. We are fundamental stockpickers.

Positive stock contributions came from Barclays, Lloyds and Conmed, and our underweight in Glaxosmithkline. These all benefitted from positivity around reopening economies. We also benefitted from not owning the London Stock Exchange Group.

It was pleasing to see ConMed contributing strongly, this is a new holding we bought last year during the market sell off and have great hopes for in the future. As for stock detractors, Rightmove, IntegraFin, AJ Bell and First Derivatives dragged on performance. These are all companies with high growth that suffered from the aforementioned market rotation out of companies with high growth towards more traditional cyclical sectors.

In terms of sector attribution, Consumer Staples, Healthcare, and our zero holdings in the Utilities sector added value, while IT, Energy and Communications sectors detracted.

Outlook

Our investment strategy of buying and holding a concentrated portfolio of high quality businesses, allows us to ignore short term market and stock fluctuations, and rather to focus on what really drives performance - the results of the underlying businesses we own. Given the long holding periods, it is this that will deliver results over the longer term.

On this note, we were pleasantly surprised by many of the results for 2020 that happened to be reported in the quarter. More often than not, businesses we own were able to be nimble and responsive to the crisis last year. A case in point is Intercontinental Hotels Group, which actually reported a year of positive free cash flows of $29m. This is a remarkable achievement in a year when their revenues were down 52%, and the worst year in the history of the hotel business over the last 100 years. This was a validation of the capital light, high ROIC business model.

The portfolio remains balanced. We have stocks in nine of the eleven GICS sectors. And most crucially, in light of the market rotations we have seen recently, we have a good balance of both strong growth companies, as well as higher quality cyclicals in the portfolio. In both these cases of these subsets of companies, we believe they are trading at attractive share prices relative to their intrinsic values.

There are also a number of stocks in the fund that have not fully recovered from pre-pandemic levels. We expect that if the pandemic continues to fade, these stocks will recover the deficit and trade far higher than they do today. And if there is a twist and the pandemic worsens again, the strong balance sheets on offer across the fund will help.

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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.

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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.
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