

# Sanlam US Dividend Fund

Q3 2020 | Quarterly newsletter

## Market recap

US markets had one of their best quarters in history, adding around 9% in three months. This followed the previous quarter which was up 20%, making it the best quarter since 1998 and the fourth since 1950. As a reminder markets had lost 20% in the first quarter on the Covid outbreak. Prospects and hopes of a reopening for the economy, coupled with fiscal and monetary policy, drove the rebound. Most of the gains came in the hot month of August when markets advanced as much as 7%. While July was also very strong, September actually witnessed a decline, the first such occurrence since the virus outbreak in March with markets losing around 5%. 10-year treasuries had some intra-quarter volatility but ended the quarter flat, up some 5bps, to 68bps. Commodities witnessed a massive rally, advancing more than 10% having lagged year-to-date. Gold also rallied significantly intra-quarter up shy of 15%, but gave back half of the gains in September but still finishing up by 7%. The value style or undervalued stocks continued to lag in this recovery upturn. The value style added around 5% vs. the market's 9%, while the growth style added 14%. This put the year-to-date tally at -12% for value, +6% for the markets and +24% for growth; for a 36% differential year-to-date between the two styles. Value has now underperformed for a very long streak of quarters, and is behind the market by 50% since 2017. Over 1, 3, 5 years growth sails alone with 43%, 72% and 108% outperformances. We are now in the fourth year of massive growth outperformance. Over ten years, the differential is at 232%. Since the start of the century however or around 20 years, value is ahead. Over longer periods, value beats growth

## Fund review

The fund relinquished some of the previous quarter's outperformance, lagging the markets and the style. The shift of momentum into high gear drove the underperformance, as profits were gradually booked on the way up. Technology was again the major culprit, as the fund does not invest in Snowflake or Zoom. Healthcare also hurt this quarter for the same reasons, as the growth sectors accounted as such for most of the underperformance. On the plus side the overweight in industrials, the exposure in consumer discretionary and the stock selection in energy and consumer staples helped. Since the correction the fund has outperformed its style by 4%. It is leading its peer group year-to-date and since launch.

### Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
<b>B Accumulation USD</b>	17/12/14	1.1	-10.7	-2.2	2.5	9.1	6.8
<b>MSCI North America</b>		9.4	6.1	15.4	11.6	13.3	10.6
<b>A Accumulation USD</b>	20/05/15	0.9	-11.3	-3.0	1.8	0.1	6.1
<b>MSCI North America</b>		9.4	6.1	15.4	11.6	0.1	10.2
<b>A Accumulation GBP</b>	30/12/14	-3.5	-9.6	-8.0	2.7	11.7	9.0
<b>MSCI North America</b>		4.5	8.7	10.0	13.0	16.9	13.6

Performance beyond one year is annualised

12 Months to	Sep-20	Sep-19	Sep-18	Sep-17	Sep-16
<b>B Accumulation USD</b>	-2.2	-1.4	11.8	14.9	24.9
<b>MSCI North America</b>	15.4	3.5	16.3	17.6	14.4
<b>A Accumulation USD</b>	-3.0	-2.1	10.9	14.1	0.2
<b>MSCI North America</b>	15.4	3.5	16.3	17.6	0.1
<b>A Accumulation GBP</b>	-8.0	3.6	13.8	10.5	45.5
<b>MSCI North America</b>	10.0	9.5	19.7	13.9	33.4

### Key facts

<b>Fund AuM</b>	\$38.4m
<b>Number of Holdings</b>	68
<b>Active Share</b>	98%
<b>Portfolio Yield*</b>	3.8%
<b>Fund Manager</b>	Adour Sarkissian
<b>Benchmark</b>	MSCI North America
<b>Fund Launch Date</b>	17 December 2014
<b>Domicile</b>	Ireland
<b>Base Currency</b>	US Dollar
<b>Fund Type</b>	OEIC, UCITS
<b>IA Sector</b>	North America
<b>Morningstar Category</b>	US Large-Cap Value
<b>Dealing Deadline</b>	14:00 (GMT)
<b>Settlement Time</b>	T+3
<b>Valuation Point</b>	23:59 (GMT)
<b>Distribution</b>	Quarterly

**Past performance is not an indicator of future performance.**

Source: Sanlam, Morningstar and Lipper as at 30/09/2020.

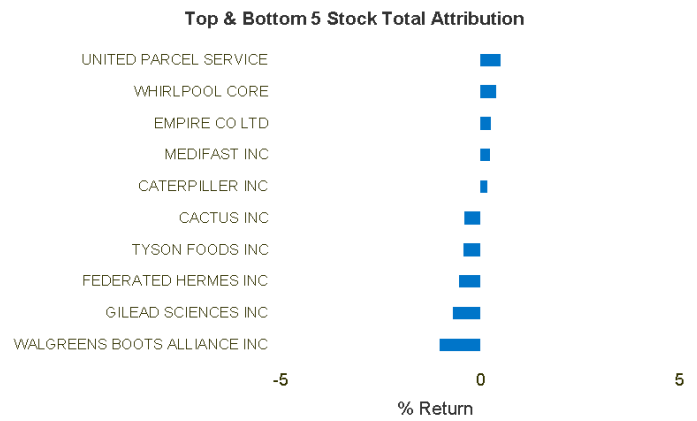
\*Portfolio yield is calculated by adding the net dividend amounts for all dividend types that have gone 'ex' over the past 12 months based on the dividend frequency.

## Performance attribution

Stock selection witnessed notable success with the large addition of UPS at \$90, which has appreciated by more than 80%, and Whirlpool, which has more than doubled.

However the underperformance of our first quarter winners, despite having been significantly cut, have more offset the positive effects. These include pharmacy chain Walgreens, or pharmaceutical company Gilead Sciences which took a backstage in the subsequent market rally. As such, while the cyclical part of the portfolio did well, the defensive part weighed it down

Currency exposure was flat this quarter and remains moderately negative year-to-date.



Source: Bloomberg as at 30/09/2020.

## Outlook

Given the portfolio composition, characteristics and valuation we see a tremendous opportunity for US Value in general and the fund in particular over the net phase of the market that can span for a decade.

With the market at an all-time high, we view the staggering levels of underperformance of value vs. growth as the main driver of this opportunity. Year-to-date, value is posting a negative decline of 10% vs. +24% for growth. Over 1, 3 and 5 years value has now lagged the markets by 20%, 35% and 50% respectively. Over 10 years value has lagged the market by 104%. Since the start of the century, however, value is ahead – albeit that outperformance has fallen to just 3% currently. We believe that value will outperform in the long run.

Couple this with a fund that is on the lookout for value and you get a compounding reaction: Exiting the quarter the fund was offering a 60% discount vs. the markets on cash flow, 70% on sales, and 55% discount of book value. These were at record highs and rarely witnessed historically. The dividend yield stood at 3.9%, or 210bps higher than the market's 1.8%. This was further coupled with quality metrics that were higher than the markets; with a lower leverage level and higher return on equity metrics.

The record discount currently offered by the fund, coupled with the historical underperformance of value, makes the fund a highly attractive proposition to navigate the next leg of the US equity markets.

We continue to focus all our efforts on identifying and investing in undervalued North American companies, and providing investors the best risk-reward profile.

## Contact us

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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](http://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 24 Monument Street, London, EC3R 8AJ.

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](http://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. AM1020(213)0121UKinst.