Q1 2018

Quarterly Newsletter

Sanlam FOUR Active UK Equity Fund

Performance Review

The fund underperformed the benchmark index in the quarter, with sector allocation and stock selection both detracting. The main factor allocation-wise was the overweight stance in Technology, although selection within the sector was positive. The largest positive selection contribution came from our holding in GKN, which rose following the bid from Melrose. Several other holdings performed well but were not as important drivers of relative performance as the beneficial impact that came from having avoided many of the poor performers in the quarter. Most notable amongst these were Diageo, Micro Focus, Reckitt Benckiser, WPP and Standard Life Aberdeen. The main cost to performance came from our holding in the AA, which fell sharply following a strategy reappraisal and dividend cut.

Activity-wise this was a busy quarter, with five new holdings introduced and six holdings sold in their entirety. New positions were established in software company Sage, Howden Joinery, Avon Rubber, oil engineering business Wood Group and the UK financial stock Integrafin (owner of the leading independent wrap platform, Transact).

Fund Characteristics	
Size	£43.0m
Tracking error	2.4%
VAR (ex-ante)	5.3%
Cash	2.7%
Holdings	38

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
A Accumulation GBP	02/04/07	-7.7	-7.7	1.3	2.1	3.9	4.7
FTSE All Share		-6.9	-6.9	1.2	5.9	6.6	5.3

Performance beyond one year is annualised.

12 Months to	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
A Accumulation GBP	1.3	17.4	-10.6	0.5	13.5
FTSE All Share	1.2	22.0	-3.9	6.6	8.8

Source: Sanlam FOUR, Morningstar and Lipper as at 31/03/2018.

Past performance is not an indicator of future performance.

Market Recap

The return of volatility after an extended period of uneasy calm was a key feature of the first quarter. With equity markets overdue a period of profit taking and consolidation following steady gains, bullish investor sentiment created a vulnerability to any disappointment.

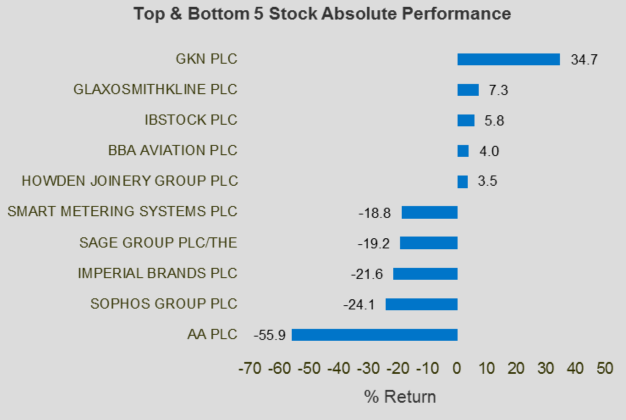
The catalysts for this soon duly materialised, initially from fears of accelerating US wage inflation as the trigger for a more aggressive tightening of monetary policy. Just as investors were beginning to believe that these fears might be overdone, markets were then hit by the news of US trade sanctions directed primarily at China. Unsurprisingly Chinese retaliatory measures were announced. The prospect of a protracted trade war, with a potentially detrimental impact on confidence and growth, will continue to unnerve investors for the time-being.

Interestingly, the first stage of this market correction was broad based as “bond proxy” stocks’ usual defensive characteristics provided no protection at a time of rising bond yields. Subsequently, the “risk-off” climate created by trade war fears has seen these stocks outperform in more conventional fashion.

This deteriorating global backdrop has added to the domestic issues facing UK investors. Constructive progress in the Brexit negotiations has been welcome, but to the extent that this has driven a tentative recovery in Sterling (not good for overseas earners) and prompted expectations of rising banks rates (not helpful for domestic stocks), it has not been supportive for equities in the short term.

With this confusing and changeable macro environment, sector moves within the UK have been largely dictated by stock specific considerations. For example, the worst performer has been Technology, in part because of the correction in US tech led by the FAANG stocks has dampened sentiment, but more specifically because of the halving in the shares of FTSE 100 software company Micro Focus following a profits warning. In fact, there have been several high profile share price collapses this quarter, the most stunning being that of Conviviality, now in administration, but other examples include Dignity, Capita, Card Factory and the AA (this last impacting our own portfolio, sadly).

Performance Attribution



Our overweight stance in Technology made a negative contribution in sector allocation terms, although our selection within this sector was relatively positive (largely by virtue of avoiding Micro Focus!). Our holdings in Sophos and First Derivatives suffered from profit taking and we purchased a new position in Sage into declining prices. The largest single cost to performance, however, was the halving of the AA's price following a significant dividend cut as the new CEO announced a revised strategy focussed on growth rather than managing the business for short term cash.

Elsewhere, a de-rating of consumer exposed UK domestic stocks impacted negatively as we saw weakness in several of our holdings, including ITV, Paddy Power Betfair and Crest Nicholson.

On the positive side the largest contributor was GKN following the bid from Melrose. This was a controversial and close fought contest, but Melrose were ultimately successful. We chose to sell our position rather to end up with the Melrose shares. Whilst several other holdings also performed well, the more significant benefit to relative performance came from not holding a large number of FTSE100 stocks that underperformed. In addition to the aforementioned Micro Focus, we avoided weakness in Diageo, Reckitt Benckiser, WPP, National Grid, Standard Life Aberdeen and Compass Group.

Key disposals

- **AA:** The dividend cut and new growth strategy are likely to keep the shares depressed for the foreseeable future.
- **BBA Aviation:** Strong share price performance now offers little upside to our valuation target.
- **Brewin Dolphin:** Good performance leaves less upside at a time of heightened market risk.
- **Strix:** Not expensive but an illiquid share price is a disadvantage in a more volatile stock-market.
- **Standard Chartered:** Share price gains presented an opportunity to switch into banks with more visible earnings prospects

Key purchases

- **Sage:** leading SME accounting software business offering above average growth and high recurring income.
- **Howden Joinery:** Efficient and cash generative with strong market position.
- **Avon Rubber:** Recent broadening of product and customer base provides a strong platform for growth.
- **Wood Group:** Cyclical recovery potential and cost savings from the integration of recently acquired Amec Foster Wheeler.
- **Integrafin:** Its investment platform, Transact, is gaining market share in a growing market. High recurring revenue supports further re-rating of the shares.

Market Outlook

The recent market set-back reflects ongoing risk factors that are now at least more realistically reflected in share valuations. As such, the medium term risk/reward presented to investors is arguably more attractive than it was three months ago. That said, the main provisos are that global economic growth continues at a pace sufficient to drive steady profits growth and confidence is maintained in order to encourage corporate investment.

Downside risks therefore include a bad Brexit deal, an overly zealous Fed committing a policy error, and a destructive, prolonged trade war. These examples illustrate the role of unforecastable events in the hands of often very fallible political leaders and bureaucrats. One can't help but feel that the global economy is doing fine by itself and needs only a gentle hand on the tiller to maintain a benign course. Politics and policy have the potential to derail this, particularly as labour markets become relatively tight and populism exacerbates political uncertainty. With relatively high valuations in financial markets leaving little cushion for these risks, it is likely that markets will remain choppy and range-bound for a while longer yet.

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

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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 shown net of fees. Performance figures for periods longer than 12 months are annualized. The fund performance is from 12 noon to 12 noon, whilst index performance is close of business to close of business.

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. Therefore, any decision to invest should be always made solely on the basis of the information and in accordance with the terms contained in the Company's Prospectus (and relevant Supplement), current Financial Statements of the relevant fund, Subscription Application Form and Key Investor Information Documents (KIIDs) that explain different types of specific risks associated with the investment portfolio of each of our products. Potential risks are disclosed in the fund's Supplement, details of annualised figures are included in the Prospectus. All these documents contain important information which should be read before investing in any fund. Any offering is made only pursuant to mentioned above offering documents all of which must be read in their entirety. 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. They can be obtained, free of charge, from the Manager, the Investment Manager or at www.sanlam.ie. Additionally, you should take independent professional advice as not all investments are suitable for all investors.

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. JR0418(36)0618 UKInst.