

Sanlam US Dividend Fund

Q3 2019 | Quarterly newsletter

Market recap

US markets continued on their strong advance in the third quarter 2019, adding around 1.5%. This followed the 14% record rise of the first quarter, 4% in the second quarter, putting the year-to-date at 20% in the first nine months of the year, or more than 2% per month in nine months. This was one of the best year-to-date periods even for the US markets, in their long history, with one more quarter to go to the end of the decade.

The intra-quarter pattern was much less smooth however, as the strong month of July was followed by a disastrous August, only to recover in September. Trade war headlines were responsible for most of the volatility. The setup for this quarter however had also included the best month of June for the US markets since 1955.

The value and dividend styles of investment continued to lag behind the markets' advance again this quarter. However, the differential was less pronounced this quarter. Notably, while value strongly underperformed in the decline of August, it significantly outperformed in the subsequent rally of September. Year-to-date, value is now showing an absolute advance of 16%, but this still pales relative to growth's advance of 23%.

The most important development of the markets occurred again outside of equities, however as interest rates witnessed a historical tumble to record lows. Ten-year treasury yields moved to a low of 1.5%, losing another 50bps over the quarter from an already low starting point, and having now lost half of their value in the year-to-date period.

Fund review

The fund lagged well behind the markets as well as style this quarter. This was the second consecutive weak relative quarter, following the strong advance of 14% for the fund in the first quarter. The current phase of the markets with a narrow lead, expensive leading and cheap lagging explains the performance. The discount provided vs. the markets widened.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B Accumulation USD	17/12/14	-2.6	10.6	-1.4	8.2	n/a	8.8
MSCI North America		1.4	20.2	3.5	12.3	n/a	9.6
A Accumulation USD	20/05/15	-2.8	10.0	-2.1	7.4	n/a	8.3
MSCI North America		1.4	20.2	3.5	12.3	n/a	9.0
A Accumulation GBP	30/12/14	0.4	13.7	3.6	9.2	n/a	13.0
MSCI North America		4.7	24.2	9.5	14.3	n/a	14.4

Performance beyond one year is annualised

12 Months to	Sep-19	Sep-18	Sep-17	Sep-16	Sep-15
B Accumulation USD	-1.4	11.8	14.9	24.9	-
MSCI North America	3.5	16.3	17.6	14.4	-
A Accumulation USD	-2.1	10.9	14.1	24.5	-
MSCI North America	3.5	16.3	17.6	14.4	-
A Accumulation GBP	3.6	13.8	10.5	45.5	-
MSCI North America	9.5	19.7	13.9	33.4	-

Key facts

Fund AuM	\$369.2m
Number of Holdings	55
Active Share	96%
Portfolio Yield*	3.0%
Fund Manager	Adour Sarkissian
Benchmark	MSCI North America
Fund Launch Date	17 December 2014
Domicile	Ireland
Base Currency	US Dollar
Fund Type	OEIC, UCITS
IA Sector	North America
Morningstar Category	US Large-Cap Value
Dealing Deadline	14:00 (GMT)
Settlement Time	T+3
Valuation Point	23:59 (GMT)
Distribution	Quarterly

Past performance is not an indicator of future performance.

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

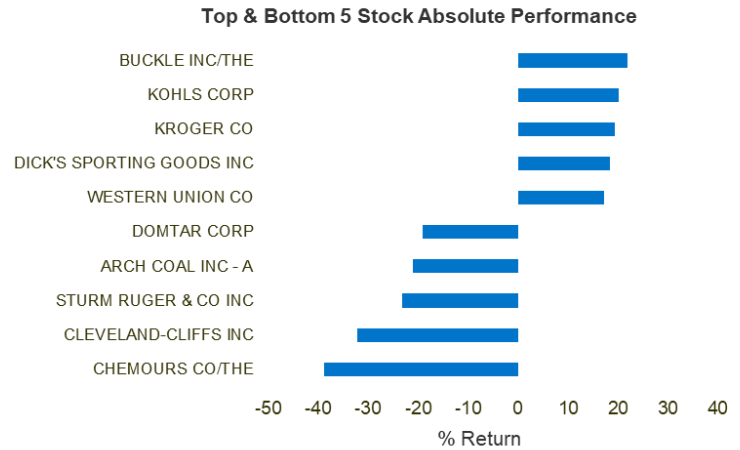
Performance attribution

The fund underperformed in the third quarter as the value style had a highly detrimental effect with low valuation stocks suffering. Most of the underperformance came from stock selection, while sector allocation was a mild positive and currency exposure was broadly neutral.

In the third quarter stock selection was mostly negative in the materials sector, as commodities continued to fall despite rising markets. Consumer discretionary was also negative, as the implementation of tariffs threat hurt a number of our names. Stock selection was mostly positive in communications services, as AT&T rallied following an activist involvement whose demands are deemed reasonable and achievable, as well as financials and healthcare where value appears to have worked. Generally, however, it was a very difficult quarter for the true value holdings in most other sectors, with cheap getting cheaper and pricey becoming pricier, hurting our style.

Sector allocation proved a mild positive this quarter, with the consumer staples overweight leading. This was partially offset by the underweights in real estate, however, as well as in utilities which were the two best performing sectors of the quarter.

While currency had acted as a main negative over the past few years, 2019 year-to-date has proved positive with strength witnessed in the first two quarters followed by stabilisation in the third quarter.



Source: Bloomberg as at 30/09/2019.

Outlook

With the markets advancing by 20% in the first nine months of the year alone, the markets' trailing multiple moved again to very high territories, boasting a price to earnings ratio of as high as 19.8.

The portfolio's valuation on the other hand was able to trend further lower in the quarter, however, driven by the underlying holdings' movements as well as some repositioning towards the end of the quarter - moving from 10.4 to 9.4. This provided a record discount level of 52% vs. the markets, coupled with a more than 3% dividend yield and significantly better leverage vs. the market. On a price to sales basis the discount also widened back to the 70% level, having already moved from these levels a year ago up to 60% over the next month and back to 70% again. We view this as a relatively highly attractive entry for the strategy.

In the meantime value continues to trail growth by record margins. Over the year-to-date period value is lagging growth again by up to 7%. This follows the 2018 underperformance of 7% which followed the underperformance of as much as 16% in 2017. This put the three-year and five-year trailing differentials at 28% and 42%, and on par with the record levels of divergence we had seen in the 1999 internet bubble. Over a 10-year market cycle value is now lagging growth by a staggering 108%. Over longer time periods, value has outperformed growth. This should create another attractive entry point for the strategy.

The large discount versus the markets, coupled with the underperformance of style makes the fund even more of a highly attractive proposition in US equities.

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

Source: Bloomberg as at 30/09/2019.

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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.

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(115)0120UKInst