

Sanlam US Dividend Fund

Q2 2020 | Quarterly newsletter

Market recap

US markets had one of their best quarters in history, adding 20% in three months. This was the best quarter since 1998, and the fourth best quarter since 1950, but it followed one of the worst quarters in history when markets lost 20% in three months on the outbreak of the coronavirus. Prospects and hopes of a reopening of the economy, coupled with fiscal and monetary policy, drove the rebound. Markets had their month of the quarter in April, when they rose by 13%. They have continued to steadily rise since then, however, with May also a very strong month up 5%, while June experienced growth of less than 1%. 10-year treasuries had some intra-quarter volatility but ended the quarter practically flat at around 65bps. Commodities also ended the quarter flat, whilst gold witnessed a rally from \$1,600 to \$1,800. Strikingly, the value style or undervalued stocks continued to lag in the upturn. The value style rose by 14%, underperforming the markets by a sizeable 6% while growth rose 27%. This followed the significant underperformance seen during the decline of the first quarter, when value declined 27%, markets 20%, and growth 14%. Year-to-date this puts the tally at -17%, -3.5%, and +10% for a 14% underperformance. Note that since 2017 value is now behind the markets by 40%. Over 1, 3, 5 years growth sails alone with 32%, 61% and 82% outperformances. We are now in the fourth year of massive growth outperformance. Over ten years, the differential stands at 220%! Over 20 years, however, or since the start of the century, value is ahead by 52%. Over longer periods, value beats growth.

Fund review

The fund had a very strong quarter, returning more than 18% and outperformed its style by around 4% over the quarter. This followed on from the previous quarter's outperformance of around 1%. Since the virus-driven correction the fund has now outperformed its style by 8%, achieving close performance to the markets in the process, despite no possibility to invest in its leaders. The fund is among the leaders of its value peer group again year-to-date.

Performance data

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B Accumulation USD	17/12/14	18.1	-11.7	-5.8	3.6	7.4	6.9
MSCI North America		21.5	-3.0	6.9	9.9	9.6	9.3
A Accumulation USD	20/05/15	17.9	-12.1	-6.6	2.8	0.1	6.2
MSCI North America		21.5	-3.0	6.9	9.9	0.1	8.8
A Accumulation GBP	30/12/14	18.3	-6.3	-4.3	4.3	11.8	10.1
MSCI North America		21.9	4.0	10.2	11.7	15.0	13.3

Performance beyond one year is annualised

12 Months to	Jun-20	Jun-19	Jun-18	Jun-17	Jun-16
B Accumulation USD	-5.8	4.4	13.1	16.3	10.5
MSCI North America	6.9	9.3	13.6	17.0	2.0
A Accumulation USD	-6.6	3.6	12.3	15.5	0.1
MSCI North America	6.9	9.3	13.6	17.0	0.0
A Accumulation GBP	-4.3	7.4	10.4	20.0	28.0
MSCI North America	10.2	13.3	11.8	20.4	20.0

Key facts

Fund AuM	\$46.2m
Number of Holdings	65
Active Share	95%
Portfolio Yield*	3.9%
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 30/06/2020.

*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.

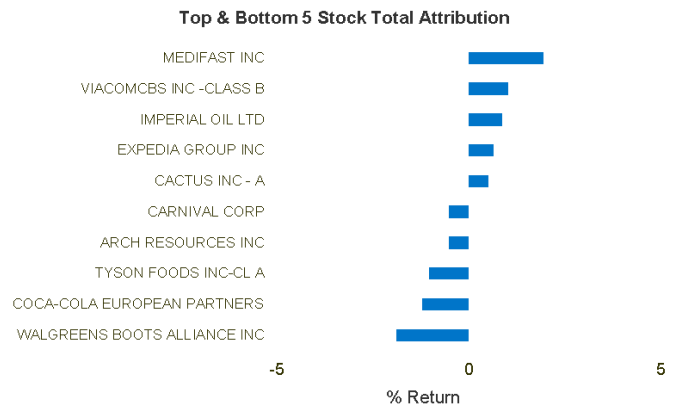
Performance attribution

Stock selection was particularly strong in the quarter, namely in the financials, consumer staples, energy, and communication services sectors. In particular, names like ViacomCBS in communications or Expedia had a substantial rally, more than doubling on renormalising prospects and adding to our performance. Other strong names included Cullen-Frost bank, Patrick Industries, or Nu Skin Enterprises, despite the China exposure.

Sector allocation also added value with the overweights to consumer discretionary and energy and underweights in utilities and health care.

Most of the underperformance vs. markets however came from the structural underweight in information technology, as expected, with a large impact this quarter.

Currency exposure was a positive this quarter, adding 17bps. This follows the 50bps deduction in the first quarter.



Source: Bloomberg as at 30/06/2020.

Outlook

This was another unique and very special quarter we just closed in the US markets. They gained 20% in three months, one of the best quarters in history, after having lost 20% in the first 3 months, one of the worst quarters in history. We witnessed an unforeseen, black swan event but, despite this, the fund managed to navigate through the quarter very well, putting us on top of our peers.

What has made the quarter even more special is that the value style still significantly underperformed the markets - both in the first quarter downturn and the second quarter upturn. This comes on the heels of a multi-year underperformance for style since 2016 – making it a tale of two markets. This sets the stage for a historic opportunity to scoop up value cheaply in the US.

For perspective, value now lags growth by 27% year-to-date and the markets by a staggering 44% since 2016. Over 1,3 and 5 years growth sails alone with 32%, 61% and 82% outperformances. We are now in the fourth consecutive year of significant growth outperformance. Over ten years, the differential stands at 220%! Over 20 years, however, or since the start of the century, value is ahead by 52%. Over longer periods, value beats growth

Exiting the quarter the fund was offering an almost 50% discount vs. the markets on an earnings basis (down from record 55% last quarter), and a 60% discount on free-cash basis. This was near record highs and rarely witnessed - the dividend yield was at 3.8%, vs. 1.8% for the markets, or a 200bps differential. On other value metrics, such as cash flow or book value, the discounts were even wider, being offered at 60%+. Notably, on a price to sales basis the discount was even more attractive, having widened to as much as 70% again, following a rapid move over the last year from 70 to 60. We believe this will be remembered as being a great entry point offered for the fund.

The historical discount currently offered by the market vs. itself, coupled with the historical underperformance of style makes the fund 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 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.

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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. _SAH0720(184)1020UKInst.