Denker Global Financial Fund

A sub fund of Sanlam Universal Funds plc
Class C USD

Minimum disclosure document
(fund fact sheet)

31 March 2022

Fund objective

The Fund aims to achieve steady growth in the value of investments, primarily by investing in financial companies* from around the world.

Investment style

The Fund utilises its database and long experience of the financial sector to invest in financial companies* with the search focused on companies that have a good track record of growing their net worth, whilst maintaining the discipline of investing only when they are mispriced.

Asset allocation as at month end

Top 10 holdings

Arch Capital Group Ltd	Other	5.4%
LIC Housing Finance	Asia	4.2%
Legal & General	UK	4.1%
Shinhan Financial	Asia	4.0%
Erste Bank	Europe	3.9%
Citigroup	US	3.7%
JP Morgan	US	3.7%
Keycorp	US	3.6%
Renaissance Re	Other	3.4%
Essent Group	US	3.3%

Asset allocation

Equities	99.3%
Cash	0.7%

Geographical breakdown

US	29.2%
Asia	19.2%
Europe	16.6%
UK	11.6%
Other	10.3%
Eastern Europe	5.6%
Scandinavia	3.4%
Latam	3.4%
Cash	0.7%

Sectors

Banks	54.0%
Financial Services	19.5%
Nonlife Insurance	17.0%
Life Insurance	5.1%
Finance and Credit Services	3.4%
Cash	0.7%
Information Technology	0.3%

Key facts

Fund inception	8 April 2004
Benchmark	MSCI World Financial Index TR
Portfolio manager	Kokkie Kooyman
Base currency	US Dollar
Fund type	UCITS
Domicile	Ireland
Fund size	$84 million
Unit price	$2.3777
Minimum investment	$5 million
Class inception	11 November 2009
Distribution	This fund does not distribute. Income is automatically added to the NAV.
Morningstar category	Sector Equity Financial Services
ISIN	IE00B4R4LT87
SEDOL	B4R4LT8
Bloomberg	SANGLFU ID

Performance summary (in USD)

	Denker Global Financial Fund	Benchmark: MSCI World Financial Index TR
Annualised performance		
1 Year	3.5%	11.2%
3 Years	5.6%	12.3%
5 Years	5.6%	8.4%
10 Years	6.1%	9.4%
Since inception	7.2%	7.1%
Cumulative performance		
YTD	-9.5%	-1.5%
Since inception	137.8%	137.2%
Actual annual performance		
Highest annual return	30.4%	
Lowest annual return	-16.7%	

Based on a calendar year period over 10 years (or since inception where the the performance history does not exist for 10 years).

Source of all performance figures: Morningstar and Denker Capital. Performance figures are net of fees.

*Defined as securities of companies of which the principle operations specifically focus on, and derive benefit from or pertain to, the provision of banking, insurance and other financial services.

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Portfolio manager

Kokkie Kooyman
B.Comm. (Hons), CA(SA), HDE

Kokkie is responsible for managing the award-winning Denker Global Financial Fund and its rand-denominated feeder fund. In 1989 he joined Old Mutual where he filled various investment management roles over 10 years, the last being Head of the Financial Services Sector. From 1999, Kokkie spent five years managing the local and global financial funds at Coronation Fund Managers. He established SIM (Sanlam Investment Management) Global in 2004, which merged with SIM Unconstrained Capital Partners to form Denker Capital.
Kokkie has received the prestigious UK-based Investment Week's Fund Manager of the Year award four times (2010-2013) in the financials category. The funds that Kokkie has managed over the years have received a range of industry awards. These include a Morningstar award for the Denker Global Financial Fund as well as Raging Bull awards for the Nedgroup Investments Financials Fund and the Denker Sanlam Collective Investments Global Equity Feeder Fund (the South African-registered feeder fund for the Denker Global Equity Fund).

Quarterly comments: March 2022

Market review

The main driver in the first quarter of 2022 was the shocking and unexpected invasion of Ukraine by Russia in late February. The loss of life and wilful destruction has been, and continues to be heart-breaking. The mistake we and most others made in January was to think of possible actions that Putin could undertake from the standpoint of a reasonable and rational human being.
The war has had the effect of increasing post-Covid inflationary pressures - this time on gas, oil, wheat and other commodity supplies. This caused the US and EU five- and 10-year bond yields to race to new highs. The US 10-year bond yield reached 2.9% (at time of writing in April), triggering a 'risk-off' environment and putting downward pressure on markets.
For the quarter, the MSCI World Index lost 5.2% in US dollar terms, with the European region shedding 7.2%, followed by North America (-4.8%), the Pacific (-3%) whilst MSCI Emerging Markets (-6.9%), EMEA region (-13.6%) and Asia (-8.6%) also fell sharply.
The financial sector will benefit from the higher interest rates, but central banks (who were behind the curve to start off with, believing that post-Covid inflation pressures would be transitionary) might now overreact if inflation remains high. Hiking interest rates too quickly could, together with higher fuel and food prices, cause a growth slowdown and even a recession. This would be a negative for banks, in the form of higher bad debts which would put pressure on their excess capital to do share buybacks with. These fears caused the US banks index to sell-off by 8.1%.

Portfolio review

For quite a few years we've preferred Russian and Eastern European banks above European banks for the fund - due to their higher growth rates, lower financial product penetration rates in these countries, attractive valuations and more pro-active central banks (quicker to hike interest rates). Hence, the fund had a very disappointing quarter. The Russian investment was just over 3% in February, but even banks like Erste Bank (Czech Republic), Swedbank (12% investment in the Baltics), the Georgian banks and ING (less than 1% loan exposure to Russian-related debt) were sold down 30%-60% - causing the big drawdown.
As of now, the fund's Russian investment is a very low 0.15% (Tinkoff Credit Services) but the value lost via the significant de-rating is unlikely to be recaptured soon. However, we believe that the other banks should fully recover their January 2022 ratings. So, we believe there is considerable latent value in the fund.

Changes to portfolio and outlook

Ukraine's resistance has exceeded expectations, making it difficult to foresee when the war will end. However, we do believe that the length of the war has significantly reduced the risk of a Russian invasion of other Central and Eastern European countries. But the outlook in Europe remains clouded by the risk of Russia resorting to using chemical or tactical nuclear weapons. This could bring about a number of scenarios, which a quarterly review doesn't give us space to discuss.
In the meantime, the inflationary pressures will finally force the European Central Bank to hike interest rates (as soon as in June 2022 being mentioned as a possibility). This, and the possibility of two 50 bps plus a number of 25 bps increases by the US Fed, means that the world may finally exit the era of negative interest rates. This is very positive for the financial sector which has seen its interest margin depressed by 10 years of low growth and negative interest rates in Europe, whilst at the same time having had to increase its capital and reserve levels.
Will this cause bad debts to spike? We think this is unlikely:

- Globally, but specifically in the US, consumer balance sheets remain in good shape.
- The shortage of labour remains large.
- But most important: Banks have been very conservative in their lending.
  - Normally recessions are preceded by excessive lending and corporate leveraging. Whilst this might have happened in individual cases, generally bank loan growth has been conservative.
  - We have seen strong loan growth in the lower end consumer space via 'buy now, pay later' and fintech newcomers. These players are likely to pay the price for injudicious lending and the fund has no exposure here.

Nevertheless, we've increased our bad debt forecasts and reduced loan growth forecasts. Yet, despite these more conservative forecasts, we believe the upside in the portfolio is almost as good as it was after the March 2020 Covid sell-off. In P/NAV terms, many banks have been sold down to below December 2008 and below their 10-year average valuation levels whilst their balance sheets are stronger than ever.
This sounds like a repeat of comments in our April 2009 and April 2020 quarterly reviews… and it is. This time the global economy first faces a slowdown, but we could see a strong growth spurt once the war ends.
We used the sell-off to add selectively to our ING, Georgian banks and Erste Bank positions in Europe and added to OneSavings Bank (UK mortgage lender) at 20% below its January levels. In addition, we switched a portion of our Mexican and Indian bank positions (India being negatively affected by higher fuel and food prices) to Indonesian and Brazilian banks. Both countries are very well placed to benefit from higher commodity and food prices and were trading at attractive valuations.
The US bank results released so far are in line with our expectations and, hence, we're now adding to Citi (trading <0.6x PtNAV (!)) and JP Morgan.
At the same time, our investment thesis for having a 15% investment in property and casualty (P&C) insurers is playing out. They have proven to be very resilient during this quarter and are reporting very good results, with the continuation of the harder underwriting cycle a high probability scenario.
As we've seen again, forecasting is difficult. The most important investment criteria are to invest in good quality companies when valuations reflect poor expectations. Based on this, we are very positive about the investment case for the financial sector.

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DENKER CAPITAL

Fees

Fees	Class C USD
Annual management fee	0.75%
Management performance fee	
Performance fee benchmark	MSCI World Financial Index TR
Base fee	0.75%
Fee at benchmark	0.75%
Fee hurdle	MSCI World Financial Index TR
Sharing ratio	20%
Minimum fee	0.75%
Fee example	0.75% p.a. if the fund performs in line with the performance fee benchmark
Repurchase fee	3% (the company may waive the repurchase fee in whole or in part)
Total expense ratio (TER)[1]	0.90%
Transaction cost (TC)[2]	0.23%
Total investment charges (TER+TC)[3]	1.13%

Other allowed expenses include depositary fees, custody fees, administration fees, director's fees, legal fees, audit fees, bank charges, regulatory fees, brokerage/trading fees.

Notes

1. TER 1 January 2019 to 31 December 2021

The percentage of the value of the financial product that was incurred as expenses relating to the administration of the product. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.

2. TC 1 January 2019 to 31 December 2021

The percentage of the value of the financial product that was incurred as costs relating to the buying and selling of the assets underlying the product. TCs are a necessary cost in administering the product and impacts the product's returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, type of financial product, investment decisions of the investment manager and the TER.

3. TER+TC

The percentage of the value of the financial product that was incurred as costs relating to the investment of the financial product.

Risk profile: Aggressive

You can afford to take on a higher level of risk (i.e. will have a greater exposure to equities in your portfolio) because of your investment time horizon, or your appetite for risk. You know that in taking the risk, you need to be patient if you want to achieve the results. So you are willing to invest for the long-term and are prepared to tolerate some volatility in the short term, in anticipation of the higher returns you expect to receive in five years or beyond.

Fund information

Manager	Sanlam Asset Management (Ireland)
Investment Manager	Denker Capital (Pty) Ltd, an authorised financial services provider under the South African Financial Advisory and Intermediary Services Act, 2002.
Depositary/ Custodian	Brown Brothers Harriman Trustee Services (Ireland) Ltd
Administrator	Brown Brothers Harriman Fund Administration
Transfer Agency	Brown Brothers Harriman Fund Administration Services (Ireland) Ltd
Listing	Irish Stock Exchange
Salient risk factors	This fund is relatively high risk in relation to other asset classes due to its equity based investment approach, however the investment manager aims to reduce the overall risk by their value and fundamental stance.
Dealing/Redemption frequency	Daily
Dealing deadline	4 PM (Irish time on the business day before a dealing day)
Valuation point	Midnight (South African time) on each dealing day.
Daily prices	Irish Stock Exchange & www.sanlam.ie

Contact information

Investment Manager and client service: Denker Capital

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South Africa

The appointed investment manager is Denker Capital (Pty) Ltd, an authorised financial services provider in terms of Financial Advisory and Intermediary Act, 2002, FSP 47075.

Manager: Sanlam Asset Management (Ireland)

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Company registration number: 267640 – UCITS IV Management Company & Alternative Investment Fund Manager regulated by the Central Bank of Ireland and is licensed as a Financial Services Provider in terms of Section 8 of the South African FAIS Act of 2002.

Depositary/Custodian: Brown Brothers Harriman Depositary Services (Ireland) Ltd

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DENKER CAPITAL

Regulatory statement

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 an 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.
The Sanlam Universal Funds Plc full prospectus, the Fund supplement, the MDD and the KIID is available free of charge from the Manager or at www.sanlam.ie. This is neither an offer to sell, nor a solicitation to buy any securities in any fund managed by us.
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 the MDD and the KIID. 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. A schedule of fees and charges and maximum commissions is available on request from the Manager.
This is a Section 65 approved fund under the Collective Investment Schemes Control Act 45, 2002 (CISCA). Sanlam Collective Investments (RF) (Pty) Ltd is the South African Representative Office for this fund.
The information to follow does not constitute financial advice as contemplated in terms of the South African Financial Advisory and Intermediary Services Act. Use or rely on this information at your own risk. Independent professional financial advice should always be sought before making an investment decision, not all investments are suitable for all investors. Collective Investment Schemes (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future performance. Changes in exchange rates may have an adverse effect on the value, price or income of the product. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. Collective investments are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any deductible expenses such as audit fees, brokerage and service fees. Actual investment performance of the portfolio and the investor will differ based on the initial fees applicable, the actual investment date, the date of reinvestment of income as well as dividend withholding tax. Forward pricing is used. The Manager does not provide any guarantee either with respect to the capital or the return of a portfolio. The performance of the portfolio depends on the underlying assets and variable market factors. Trail commission and incentives may be paid and are for the account of the Manager.
The Manager has the right to close any Portfolios to new investors to manage them more efficiently in accordance with their mandates. Performance figures for periods longer than 12 months are annualised. The performance fee is accrued daily, based on performance over a rolling 6 month period with payment to the manager being made bi-annually. Performance fees will only be charged once the performance fee benchmark is outperformed. The portfolio management of all the portfolios are outsourced to Regulated and authorised financial services providers.
Deemed authorised and regulated by the Financial Conduct Authority. The nature and extent of consumer protections may differ from those for firms based in the UK. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. (Notes 1, 3 and 4)

Glossary Terms

Annualised total returns
Annualised return is the weighted average compound growth rate over the period measured.
Capital growth
Capital growth is the profit made on an investment, measured by the increase in its market value over the invested amount or cost price. It is also called capital appreciation.
Equities
Equities are shares that represent an institution's or individual's ownership in a listed company. These shares are also the "vehicle" through which they are able to "share" in the profits made by that company. As the company grows, and the expectation of improved profits increases, the market price of the share will increase which translates into a capital gain for the shareholder. Similarly, negative sentiment about the company will result in the share price falling.
Shares / equities are usually considered to have the potential for the highest return of all the investment classes but also have the highest level of risk i.e. share investments have the most volatile returns over the short term. An investment in equities should be viewed with a 7 to 10 year horizon.
Undervalued equity stocks (value investing approach)
This is a strategy of selecting shares that trade for less than their intrinsic values. Value investors actively seek stocks that they believe the market has undervalued. They believe the market overreacts to good and bad news, resulting in stock price movements that do not correspond with the company's actual long-term fundamentals. The result is an opportunity for value investors to profit by buying when the price is deflated.
Securities
A general term for shares, bonds, money market instruments and debentures.
Collective investment scheme (CIS)
Collective investment schemes (also called unit trusts) are portfolios of assets such as equities, bonds, cash and listed property, in which investors can buy units. They allow private investors to pool their money together into a single fund, thus spreading their risk across a range of investments, getting the benefit of professional fund management, and reducing their costs.
Total expense ratio (TER)
This is the total costs associated with managing and operating an investment administration, financial planning and servicing fees. These costs consist primarily of management fees and additional expenses such as trading fees, legal fees, auditor fees and other operational expenses. The total cost of the fund is divided by the fund's total assets under management to arrive at a percentage amount, which administration, financial planning and servicing fees. These costs consist primarily of management fees and additional expenses such as trading fees, legal fees, auditor fees and other operational expenses. The total cost of the fund is divided by the fund's total assets under management to arrive at a percentage amount, which represents the TER.
Standard deviation
Standard deviation (also called monthly volatility) is a measure of how much returns on an investment change from month to month. It is typically used by investors to gauge the amount of expected volatility in an investment.

Issue date:
22 April 2022