Sanlam FOUR US Dividend Fund

Performance Review

The fund outperformed in Q2 despite persisting headwinds for value and dividend styles. While markets advanced by 3.5% for the quarter to return to positive territory for the year, value benchmarks only gained 1% and remains in negative territory.

The outperformance all came from stock selection with sector allocation a large negative again, as can be expected from a negative style environment. The overweight to Consumer Staples, despite having been reduced, detracted while the structural underweight to the Technology highflyers continued to act as a major detractor in the growth-driven market. While other dividend-friendly sectors like Telecoms did not act well, the relative underperformance of a few cyclical sectors helped. Our stock picks, particularly in Consumer Staples and Consumer Discretionary sectors, helped.

The outperformance of growth continues unabated with 25% annualised since the start of 2017 against value's 7.7%. While value slightly outperformed in March, it heavily underperformed in May and moderately so in June. The fund remains heavily entrenched in value territory, currently offering one of the largest levels of discount versus the broader markets since launch due to the sustained underperformance of our style.

Portfolio Characteristics	
AUM	$337.9m
No. of holdings	63
Active share	90.7%
Yield	3.3%
TE	5.9
VaR	5.6
% in cash	6.4%

	Inception	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B Accumulation USD	17/12/14	3.7	0.3	13.1	13.3	n/a	11.6
MSCI North America		3.5	2.3	13.6	10.7	n/a	10.6
A Accumulation USD	20/05/15	3.5	0.0	12.3	12.7	n/a	11.6
MSCI North America		3.5	2.3	13.6	10.7	n/a	9.2
A Accumulation GBP	30/12/14	9.9	2.3	10.4	19.3	n/a	15.5
MSCI North America		9.9	4.8	11.8	17.3	n/a	14.1

Performance beyond one year is annualised.

12 Months to	Jun-18	Jun-17	Jun-16	Jun-15	Jun-14
B Accumulation USD	13.1	16.3	10.5	-	-
MSCI North America	13.6	17.0	2.0	-	-
A Accumulation USD	12.3	15.5	10.5	-	-
MSCI North America	13.6	17.0	2.0	-	-
A Accumulation GBP	10.4	20.0	28.0	-	-
MSCI North America	11.8	20.4	20.0	-	-

Source: Sanlam FOUR, Morningstar and Lipper as at 30/06/2018.

Past performance is not an indicator of future performance.

Market Recap

US markets had a great second quarter, advancing in all three months to erase Q1's small losses and restoring the markets' winning quarterly streak, which started in Q1 2016.

The focus during the period was on trade tariffs. Treasury rates continued to climb with the ten-year witnessing further gains of around 40bps intra quarter (on top of the 40bps of Q1) before retreating some 15 bps in the quarter's second half.

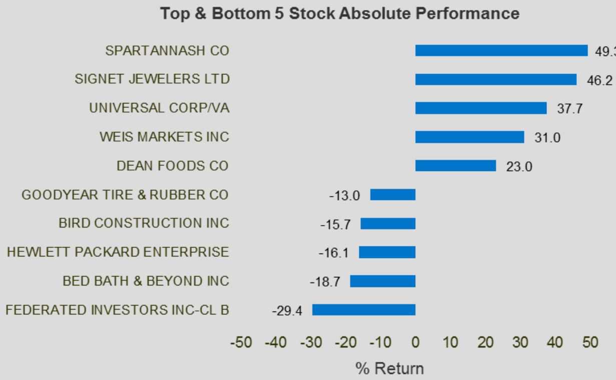
Interestingly, the US dollar resumed its appreciating trend and was up in tandem with the markets, adding around 5% over the quarter.

From a sector standpoint, the leaders remained the same as the past quarters, namely Information Technology, Consumer Discretionary and Energy. Discretionary, in particular, were helped by good results as stocks such as Macy's handily beat expectations. The oil price also had momentum and was up some 20% for the quarter.

On the other end of the spectrum, Financials and Industrials underperformed. Consumer Staples and Telecoms also underperformed despite the former being helped by reports of Kraft-Heinz looking to acquire Campbell Foods. In other M&A news, Comcast joined the bidding war for Fox assets.

The first half of 2018 continues to be a tale of two markets, with growth indices up almost 10% for the year and value indices remaining in negative territory having lost 1%.

Performance Attribution



Source: Bloomberg as at 30/06/2018.

The fund delivered strong results in the second quarter and outperformed the US markets. This occurred despite the persistence of major style headwinds for dividend and value in the quarter, implying the fund significantly outperformed its style.

Sector allocation continued to be a large drag on performance, as expected given the adverse style environment, but was overshadowed by our positive stock selection which was broadly diversified across most sectors. Large holdings such as Conoco Phillips rose on the oil price strength. Verizon Corporation climbed higher following decisions to focus on its network leadership instead of large M&A strategy, receiving market accolade.

In Consumer Discretionary, Macy' advanced by more than 30%, following a strong set of results that beat expectations. Despite a negative tape for Consumer Staples, our holdings within the sector also helped. Holdings such as Pennsylvania supermarket chain Weis Markets rallied over 40%, helped by a good set of results and wise management moves.

PepsiCo and Procter and Gamble also rallied in the second half of the quarter, as valuations had become enticing following a major correction since the start of the year.

On the negative side, home improvement retailer Bed Bath and Beyond continued to tumble, making it a very cheap stock.

In sector allocation our overweight in Consumer Staples, despite having been reduced at the start of the year, continued to hurt considerably. This, coupled with our Technology underweight particularly to the highflying large cap stocks which continued to lead (Netflix up more than 100% this year alone), drove the negative impact.

Currency exposure was a slight negative over the quarter as the Canadian currency continued to depreciate versus the US dollar.

Market Outlook

Following a very volatile start to the year with the US markets rising 8% in January before ending the first quarter slightly negative, Q2 marked a return to normalcy with markets advancing in all three months and ending the first half of the year up a few percent. This marks the tenth consecutive year of rises.

Beneath the surface, however, the widely growing divergence between growth and value styles continue. Following on the footsteps of the large underperformance of 2017, where growth advanced some 30% against value's "measly" 13% (the fund did 17%), this year value finds itself in negative territory (-2%), while growth is almost up to double digits. The divergence over the past 18 months alone is as such almost 40%. While no one can predict how much longer and wider this gap can go (except perhaps Benjamin Graham?) the next cycle might well prove to be propitious for value investing over growth.

Despite achieving strong results since launch and finishing first with lower risk in its Morningstar US Value peer group, the fund remains firmly anchored in value territory. It trades at some of the widest discounts to the markets than ever before. US markets remain at record high valuations trading at 22x trailing profits, making it expensive against our fund which trades at only 16x.

From a risk perspective, our fund is anchored into lower risk territory compared with the markets, thus providing stronger downside protection while simultaneously providing a higher stream of income (around 3.4%) and higher quality metrics.

We continue to focus all our efforts on identifying, analysing and investing in undervalued North American equities with a strong dividend yield and providing the best risk-reward profile for US equity investors.

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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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