Denker Global Financial Fund

A sub fund of Sanlam Universal Funds plc
Class A USD

Minimum disclosure document
(fund fact sheet)

31 March 2021

DENKER CAPITAL

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

LIC Housing Finance	Asia	5.3%
Citigroup	US	5.0%
OSB Group PLC	UK	4.5%
TCS Group Holding	Eastern Europe	4.5%
Arch Capital Group Ltd	US	4.2%
JP Morgan	US	4.2%
Essent Group	US	3.7%
Signature Bank	US	3.6%
ERSTE BANK	Europe	3.5%
ING Group	Europe	3.3%

Asset allocation

Equities	94.9%
Cash	5.1%

Geographical breakdown

US	31.1%
Europe	18.4%
Asia	15.0%
UK	11.7%
Eastern Europe	6.4%
Cash	5.1%
Scandinavia	4.6%
Latam	4.4%
Other	3.3%

Sectors

Banks	51.8%
Financial Services	27.7%
Nonlife Insurance	8.4%
Life Insurance	7.0%
Cash	5.1%

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	$95 million
Unit price	$38.5392
Minimum investment	$1,000
Class inception	5 October 2004
Distribution	This fund does not distribute. Income is automatically added to the NAV.
Morningstar category	Sector Equity Financial Services
ISIN	IE00B0S5SM41
SEDOL	B0S5SM4
Bloomberg	SANGLOA ID

Performance summary (in USD)

	Denker Global Financial Fund	Benchmark: MSCI World Financial Index TR
Annualised performance		
1 Year	82.3%	61.3%
3 Years	-0.2%	5.3%
5 Years	10.9%	11.0%
10 Years	5.2%	7.3%
Since inception	8.5%	3.9%
Cumulative performance		
YTD	12.4%	13.2%
Since inception	283.0%	88.3%
Actual annual performance		
Highest annual return	29.7%	
Lowest annual return	-17.2%	

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 comment: March 2021

Market review

After a strong recovery in the final quarter of last year, the MSCI World Index once again delivered good performance of 4.9% for the quarter. The yield on 10-year US bonds rose from 0.9% at the end of 2020 to 1.74% at the end of the first quarter.

The higher 10-year yield (and the impact of higher discount rates on the valuations of companies with high growth expectations) and expectations of the continued re-opening of the global economy due to the vaccine roll-out, were the main drivers of equity returns at a sector and stock level. The energy and financial sectors, which were the main laggards in 2020 along with other cyclical sectors, continued their strong comeback during the quarter (energy +22%, financials +14%) while healthcare (+1%), technology (+1%), consumer staples (-1%) and utilities (flat) lagged.

The year started with unexpected drama when President Trump challenged election results and the Capitol Hill riots on 6 January. As a result, Trump became the only President in the history of the US to be impeached twice. Despite evidence of the US economic recovery being underway, newly elected president Biden managed to get the House to pass a $1.9 trillion Covid-19 relief bill. At the moment President Biden is working on another $3 trillion round of spending on infrastructure whilst the US is vaccinating an average of 3 million people a day. At the current rate, 75% of the US population will be vaccinated by the end of June.

The UK spent much of the first quarter in hard lockdown following the identification of a new much more infectious strain of the virus. The UK, which approved the use of vaccines late last year vaccinated more than 40% of its population in the first quarter whilst Europe experienced an increased level of infections and has reintroduced lockdowns. These have not been popular with the electorate given the slow rollout of the vaccines which could have reduced the need for the tighter restrictions.

Portfolio review

Attractive valuations and good stock picking helped the fund to perform well in the quarter and the 12 months to 31 March. As at the end of the quarter, the fund is ranked second in its Morningstar category for 12 months and first since inception. Over the past 12 months the MSCI World Financials Index gained 61.3% vs. the MSCI World Index's 54.0% and the Nasdaq 100's 67.5% (all total return including dividends in US dollars) whilst the fund's A class returned 82.3%.

Five investments in the fund stood out in terms of performance, as at 31 March 2021 (the 3-, 12- and 15-month returns are listed here respectively) - Tinkoff Credit Services (Russia): 76%, 402%, 170%; Arrow Global (UK): 49%, 185%, 19%; Signature Bank (US): 67%, 181%, 66%; Kruk (Poland): 29%, 180%, 9%; ING (Netherlands): 36%, 118%, -2%.

As a sector, US banks re-rated the most during the quarter (generating returns of 18%-20%) as the market started realising that the banks had been forced (by post-2008 regulations) to overprovide for bad debts and that as the economy recovered loan demand for credit would return and that the provisions made in 2020 would be released during 2021. Similarly, EU banks had been totally oversold in the panic and came back strongly (ING, Erste, Raifeissen, BBVA). Our emerging market (EM) banks were a mixed bag: TBC (Georgia), Adira and Panin Securitas (Indonesia) and Credicorp (Peru) detracted (Credicorp: -14% in Q1, -35% since 31 Dec 2019), however LIC Housing finance (India) gained 13% (81% for the 12 months). Each underperforming share has its own story, but all reported solid financial results. The share price declines were (in our opinion) due to markets overreacting to short-term concerns. The next few quarters will provide clarity on whether the market was right.... but we doubt it.

The sector that disappointed the most and held back returns was the property and casualty (P&C) insurance sector (in particular Renaissance Re). Whilst financial results reported were good, the market seems to be fearing further Covid-19 related claims. However, all our interactions with managements indicate that further possible losses are both unlikely and provided for. The insurers the fund is invested in have good underwriting track records as well as very rational allocation of capital. Based on our analysis, the shares should generate above average investment returns going forward and we have been adding to our holdings. In particular, Renaisance Re's P/NAV of 1.03 totally ignores the fact that, as it usually does after large catastrophes, the rate hardening cycle has begun (meaning that insurers are experiencing stronger premium growth at higher rates).

Changes to portfolio and outlook

The vaccination progress, savings built up by US consumers and the spending of the $1.9 trillion should result in strong US consumer spending. This and the infrastructure package to follow will push the US economy to run above capacity and brings inflationary risks which could push the US 10-year bond yield higher (probably above 2.0%). All of this means that we might be past the end of a 10-year continuously lower interest rate cycle and at the beginning of a multi-year banks earning expansion cycle. At the least we should see strong earnings growth for US banks which could push P/NAVs and PEs to pre-2008 levels and certainly cause further re-rating of EU and UK banks. The normalisation of dividends and share buybacks will add fuel to the fire in terms of demand for bank shares and push ROEs higher. Hence, our view is that the sector still presents a good investment opportunity. Especially the US P&C insurance sector, and UK and EU financials also show considerable upside. US banks have indeed re-rated, but (as said) can re-rate back to pre-2008 P/NAVs if the stronger growth does lead to higher than anticipated inflation.

We reduced the fund's investment in EM during 2020 (especially the countries with insufficient firepower to help their economies through the pandemic). We used the proceeds to invest in DGB Financial Group and Shinhan in Korea. Despite very low interest rates the Korean bank sector has consistently grown shareholder value over many years and come through the pandemic well. They are set to generate ROEs of 9% but trading at record low P/NAVs of 0.4x. We've visited them regularly since 2003 so know the banks well and have gradually increased the investment to above 4% of the fund. EMs tend to underperform when the US dollar strengthens on the back of higher interest rates, but the Fed's policy of keeping US short rates low and strong EM trade balances should support EM currencies and if economic growth does materialize to the extent governments are targeting (nominal growth rates > 10% in India and Indonesia) bank loan growth will be very strong.

In summary: Excluding Tinkoff (which has re-rated sharply over the past 15 months), our portfolio is trading below its Dec 2019 ROE, and still at record low relative valuations ahead of what could be a strong economic recovery. The fund's forecast average annual return on capital is >14%. This plus potential for further re-rating will provide solid investment returns with further upside should the higher growth rate bring about a higher inflation rate than currently expected.

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Fees

	Class A USD
Initial fee/ Front end load	0% (up to 5% with intermediary
Annual management fee	1.25%
Management performance fee	
Performance fee benchmark	MSCI World Financial Index TR
Base fee	1.25%
Fee at benchmark	1.25%
Fee hurdle	MSCI World Financial Index TR
Sharing ratio	20%
Minimum fee	1.25%
Fee example	1.25% p.a. if the fund performs in line with the performance fee benchmark
Total expense ratio (TER)[1]	1.39%
Transaction cost (TC)[2]	0.25%
Total investment charges (TER+TC)[3]	1.64%

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 2018 to 31 December 2020

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 2018 to 31 December 2020

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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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.

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:
19 April 2021

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