# PERPETUA GLOBAL EQUITY UCITS FUND

## A sub-fund of the Sanlam Universal Funds plc

Perpetua

MDD Issue Date: 12/09/2024

## FUND OBJECTIVE

The objective of the portfolio is to deliver long-term capital growth while emphasising the preservation of capital and outperforming the benchmark index over a rolling five-year period.

## FUND STRATEGY

The Fund invests primarily in a concentrated portfolio of global stocks that meet our investment criteria. We invest with a 5-plus year time horizon and capitalise on short-term price volatility to buy good businesses, run by capable management teams when their valuations become attractive.

## FUND INFORMATION

| | |
|---|---|
| Manager | Sanlam Asset Management (Ireland) Ltd |
| Investment Manager | Perpetua Investment Managers (Pty) Ltd |
| Portfolio Managers | Delphine Govender and Graeme Ronné |
| Depositary / Custodian | Northern Trust |
| Transfer agency | Northern Trust |
| Domicile | Ireland |
| Risk Profile | Medium to High |
| Base Currency | US Dollar |
| Benchmark | MSCI ACWI (Net) |
| Fund Size | USD 21.6 million |
| Unit Price | USD 1.3468 (Class A) |
| ISIN | IE00BG1D0S77 (Class A) |
| Portfolio Launch Date | 01 February 2019 |
| Minimum Investment | USD 100,000 (Class A USD) |
| Income Declaration Date | The Fund does not distribute income. Dividends and Income are automatically added to the NAV of the fund. |
| Portfolio Valuation Time | Midnight (South African time) on each dealing day. |
| Transaction Cut-Off Time | 4 PM (Irish time on the business day preceding a dealing day). |
| Daily Price Information | www.sanlam.ie |
| Dealing/redemption frequency | Daily |

## FEES

| | |
|---|---|
| Minimum Initial Advice Fee | 0% (up to 5% with intermediary charges if applicable). |
| Manager Fee | 0.15% per annum (Excl. VAT) |
| Investment Management Fee | 0.65% per annum (Excl. VAT) |
| Performance Fee | None |
| Exit Fee | None |
| Other allowed expenses | Depository fees, custody fees, administration fees, directors' fees, legal fees, audit fees, bank charges, regulatory fees, and brokerage/trading fees. |
| Total Expense Ratio | 0.98% |
| Transaction Cost | 0.24% |
| Total Investment Charges | 1.22% |
| TER Measurement Period | 1 July 2021 – 30 June 2024 |

The Fund does not pay performance fees.

Full details of fees are contained in the fund supplement, which can be obtained free of charge at www.sanlam.ie

NOTE: A higher TER does not imply a poor return, nor does a low TER imply a good return. The current TER may not be an accurate indication of future TERs.

Transaction costs are a necessary cost in administering the Financial Product and impact financial product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of Financial Product, the investment decisions of the investment manager, and the TER.

## TOP 10 HOLDINGS (%)

Portfolio Date: 31/08/2024

| Company | Country | Weight |
|---|---|---|
| Brookfield Corporation | Canada | 5.4% |
| British American Tobacco | United Kingdom | 4.6% |
| Alibaba Group | China | 4.3% |
| PayPal | United States | 4.1% |
| Diageo | United Kingdom | 4.1% |
| Euronext | France | 4.0% |
| Tencent | China | 3.5% |
| Unilever | United Kingdom | 3.5% |
| St James's Place | United Kingdom | 3.4% |
| UnitedHealth | United States | 3.4% |
| Top 10 Positions | | 40.3% |

Source: Perpetua Investment Managers (Pty) Ltd and Bloomberg

## SECTOR ALLOCATION (%)

Portfolio Date: 31/08/2024

| MSCI Sector | Fund |
|---|---|
| Communication Services | 13.8% |
| Consumer Discretionary | 17.8% |
| Consumer Staples | 19.4% |
| Energy | 0.0% |
| Financials | 35.5% |
| Health Care | 8.1% |
| Industrials | 0.0% |
| Information Technology | 5.5% |
| Materials | 0.0% |
| Real Estate | 0.0% |
| Utilities | 0.0% |
| Total | 100.0% |

Source: Perpetua Investment Managers (Pty) Ltd and Bloomberg

## PERFORMANCE SUMMARY (%)

Since Inception to 31/08/2024

| Fund performance (Net) | Fund | Benchmark |
|---|---|---|
| 1 month | 2.2% | 2.5% |
| 3 months | 3.1% | 6.5% |
| 1 year | 5.3% | 23.4% |
| 3 years | -2.8% | 5.8% |
| 5 years | 7.2% | 12.1% |
| Since inception (annualised) | 5.5% | 11.9% |

Source: Perpetua Investment Managers (Pty) Ltd and Bloomberg

# PERPETUA GLOBAL EQUITY UCITS FUND

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## ASISA CATEGORY

Global - Equity – General

## FEES

This fund is deemed to be medium to high risk in relation to other asset classes due to its equity-based investment approach and emerging and frontier markets exposure, it may be affected by uncertainties such as international political developments and changes in governmental policy or taxation.

Irish domestic law implementing EU and United Nations sanctions may limit or prohibit investment in particular African markets and this may have an adverse impact on the operations of the Fund. Investing in international companies means that currency exchange rate fluctuations will have an impact on the Fund returns. Foreign currency shortages in some frontier markets could reduce the fund’s ability to repatriate funds. The investment manager aims to reduce the overall risk by their value and fundamental stance.

## 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 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.

## 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 are 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 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. The 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 annualized. The Manager retains full legal responsibility for this Fund.

## CONTACT INFORMATION

**Manager Information**
Sanlam Asset Management (Ireland) Ltd
Physical Address: Beech House, Beech Hill Road, Dublin 4, Ireland
Web: www.sanlam.ie
Tel: +353 1 2053510
Fax: +353 1 2053521
Email: intouch@sanlam.ie
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.

**Investment Manager Information**
Perpetua Investment Management (Pty) Ltd
Address: 5th floor, The Citadel, 15 Cavendish Street, Claremont, 7708, Cape Town, South Africa
Web: www.perpetua.co.za
Tel : +27 21 6744274
Fax : +27 21 6744599
Email: clients@perpetua.co.za
Authorised: Financial Service Provider FSP : 29977

**For further information:**
Northern Trust International Fund Administration Services (Ireland) Limited
Address: 54-62 Townsend Street, Dublin 2, D02 R156 Ireland
Registered No. 160579
Web: www.northerntrust.com
Tel : +353 1 542 2000
Fax : +353 1 434 5286
Email: Sanlam.Ta@ntrs.com

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## PORTFOLIO MANAGER COMMENT

### As of 30 June 2024

**Market Overview**

The MSCI AC World (net) index ("benchmark index') returned 2.87% in the second quarter and 11.3% in the first half of 2024. Just 10 shares – Nvidia, Apple, Microsoft, Alphabet, Taiwan Semiconductor, Broadcom, Amazon, Eli Lilly, Tesla, Tencent – contributed 3.6% to the benchmark index accounting for 125% the return. The other 2,760 constituents of the benchmark index returned -0.73% in aggregate. These 10 shares contributed 6.8% to the benchmark index return over the first half accounting for 60% of the return. Markets returns have been heavily concentrated in the largest market capitalisation shares in the index. In fact, only 20% of all constituents in the S&P 500 index have outperformed the index this year. This is the lowest rate of outperformance since 1990 and even lower than the dotcom bubble. This is evidenced by the 2.63% decline for equal-weighted S&P 500 index compared to the 4.28% gain for market capitalisation-weighted S&P 500 index in second quarter.

While the market capitalisation-weighted S&P 500 has gained 15% this year, the MSCI AC World ex-US index has gained 5.6% and the equal-weighted S&P 500 is up 4.9%. Almost all of the gains for the S&P 500 have come from a (11.8%) re-rating of the price-to-earnings (P/E) ratio (from 22.8x to 25.5x). The only time the S&P 500 was more highly valued over the past 20 years was during 2021 (post-covid lockdowns) when consumers benefitted immensely from government stimulus cheques and spent like kids in a candy store. Market participants have priced in very high future earnings growth for U.S. large-cap technology and internet shares. It remains to be seen whether these market darlings can live up to expectations. If they cannot, there is significant risk of permanent capital loss, especially for market participants late to the proverbial party.

The poster child for this narrow market performance is Nvidia, whose share price has returned 149% this year and 745% since the start of 2023. With a market capitalisation of $3.3 trillion, Nvidia is currently worth more than the annual GDP of France. At 103x P/E and 40x 12-month forward P/E, the market is betting heavily that Nvidia can continue growing quickly off these new, very high revenue and profit peaks. It was not that long ago in 2022 that Nvidia's share priced declined 50% that year and 65% peak-to-trough. In late 2021, Nvidia was trading on 107x P/E and 60x 12-month forward P/E. High growth expectations that disappointed after profits fell 50% on flat revenues! As we move in 2025 and 2026, market expectations are that Nvidia will earn as much net profit as Apple ($106 billion) and still grow at high double-digits given that the P/E only falls to 32 times 2026 earnings. The range of outcomes are wide given that Nvidia will likely account for nearly half of all datacentre capital expenditures in 2024, which is concentrated in a small number of very large datacentre customers such as Alphabet, Amazon, Microsoft and Meta. Any disappointments relative to expectations will be felt all the way down the semiconductor value chain.

**Portfolio Performance**

The Perpetua Global UCITS Fund ("the Fund") declined by -0.6% net of fees in second quarter, while the MSCI ACWI ("the benchmark") returned 2.9%. For the year ended 30 June 2024, the Fund declined by -0.5% net of fees while the benchmark returned 19.4%. It has been a tough and frustrating last 12-15 months for the Fund. At the end of Q1 2023, the Fund had returned an annualised 20.4% net of fees over the 3 years ending 31 March 2023 compared to 15.3% for the benchmark index. Since then, the Fund has returned 2% net of fees for the 15 months ending 30 June 2024 while the benchmark index returned 26.7%.

Just 11 companies accounted for about 50% of the benchmark index returns since March 2023 - Nvidia, Microsoft, Apple, Amazon, Meta, Alphabet, Broadcom, Taiwan Semiconductor Manufacturing, ASML, Novo Nordisk and Elli Lilly. All of them, apart from Novo Nordisk and Eli Lilly, are in the semiconductor and technology industries. Generative AI ("artificial intelligence") has been the dominant narrative in markets over the past 15 months and disproportionate driver of benchmark index returns. Novo Nordisk and Eli Lilly are pharmaceutical companies that are beneficiaries of the GLP-1 'weight-loss craze' which has seen its share price catapult over 100% since the end of 2022. Eli Lilly, up 150%, trades on 131 times current earnings and 52 times forward earnings. The Fund owns only two of these 11 companies – Meta and Alphabet – whose shares trade on much more modest valuations (22 times forward earnings) compared to the likes of Nvidia, Eli Lilly, Amazon and Microsoft.

The other half of the underperformance has come from stocks we own that are just not working in the current market environment. The first group of shares include our Asian-based holdings such as Alibaba, Tencent, AIA Group, Melco International and Sands China. They are performing well operationally and financially but suffering from poor sentiment due macro and geopolitical fears. These companies are trading at some of the cheapest valuations in over a decade. Their management teams are buying back shares at an accelerating rate as their try to close the undervaluation.

The second group of shares include holdings such as St James's Place, Entain, Kering, PayPal and Diageo who are working through some industry or company-specific temporary headwind to near-term earnings growth. The market has sold these shares down heavily to chase growth stories with faster expected payoffs. These shares also trade at decade-plus lows valuations relative to their long-term history. We expect an earnings recovery in 2025 for this group of shares and a subsequent re-rating. The second group of shares include holdings such as St James's Place, Entain, Kering, PayPal and Diageo who are working through some industry or company-specific temporary headwind to near-term earnings growth. The market has sold these shares down heavily to chase growth stories with faster expected payoffs. These shares also trade at decade-plus lows valuations relative to their long-term history. We expect an earnings recovery in 2025 for this group of shares and a subsequent re-rating.

Three of our five winners this quarter are stocks that have contributed to our underperformance over the past 15 months – Tencent (+25%), St. James's Place (+19.5%), Melco (+16%). The five largest detractors were Entain, Diageo, PayPal, Eurofins Scientific and Walt Disney. Their shares prices fell between 15% and 20% in the quarter.

**Market Outlook and Portfolio Positioning**

A two-speed market is anticipated for the second half of 2024. While the US market has shown strong returns, early signs of weakness are emerging with current levels of market concentration reminiscent of those seen before the 1929 Great Depression and the Tech bubble in the late 1990s. Mounting debt in the US and the potential re-election of Trump, given his previous term's high debt ($8.4 trillion, almost twice the Biden administration's $4.3 trillion) and the Republicans' low tax stance, pose significant concerns given the US's positioning in the market cycle. Conversely, the UK, China, and the Eurozone are poised for recovery from their economic downturns.

Valuations of U.S. large-cap equities have been rising steadily since October 2023 from about 20x price-to-earnings (P/E) ratio to 26x today. That is a 30% valuation re-rating over 9 months and reflects the high and rising growth expectations priced into particularly technology, internet and semiconductor shares. Our research suggests that valuations are on the "high side of normal" compared with the past 20 years. In fact, the only time the S&P 500 was more richly valued in the past 20 years was during 2021 when the index reached 29x P/E. The big difference is that long-term interest rates (10-year U.S. Treasury Yields) are 4.5% today compared to less than 1% in 2021. It is difficult to reconcile today's valuations for long-duration growth equities with higher long-term real bond yields (10-year

U.S. TIPS). Back in 2021, U.S. long-term real bond yields were -1% and today they are 2.1%! Historically, market P/E ratios have been closer to their long-term average (16.7x) when real interest rates are 2.0-2.5% (long-term average). We know what happened in 2022 when highly valued growth

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shares de-rated substantially leading to share prices declines of 45-80%. Mega-cap index companies such as Nvidia and Tesla fell 65% and 72% respectively! We are extremely cautious at this late stage of the market cycle. Nvidia, Eli Lilly, Novo Nordisk and many other semiconductor equipment companies have become crowded trades with extreme investor euphoria and unrealistic growth expectations priced into their shares. There is no room for disappointment.

We prefer to own good companies with above-average growth prospects at average to below-average valuations relative to the benchmark index. We think over the long-term this will produce above-average returns at below-average risk. In the very near-term, this strategy has lagged as it relies less on a P/E re-rating and more on compounding of earnings over time. The major winners over the past 15 months have experienced significant P/E re-rating in anticipation of rising earnings growth expectations. These companies now need to deliver on these growth expectations for their share prices to be justified. This faces substantial risk into a slowing and uncertain global economy.

**Portfolio Managers**

Delphine Govender
**CA(SA) and CFA**

Graeme Ronné
**B Com (Hons) and CFA**