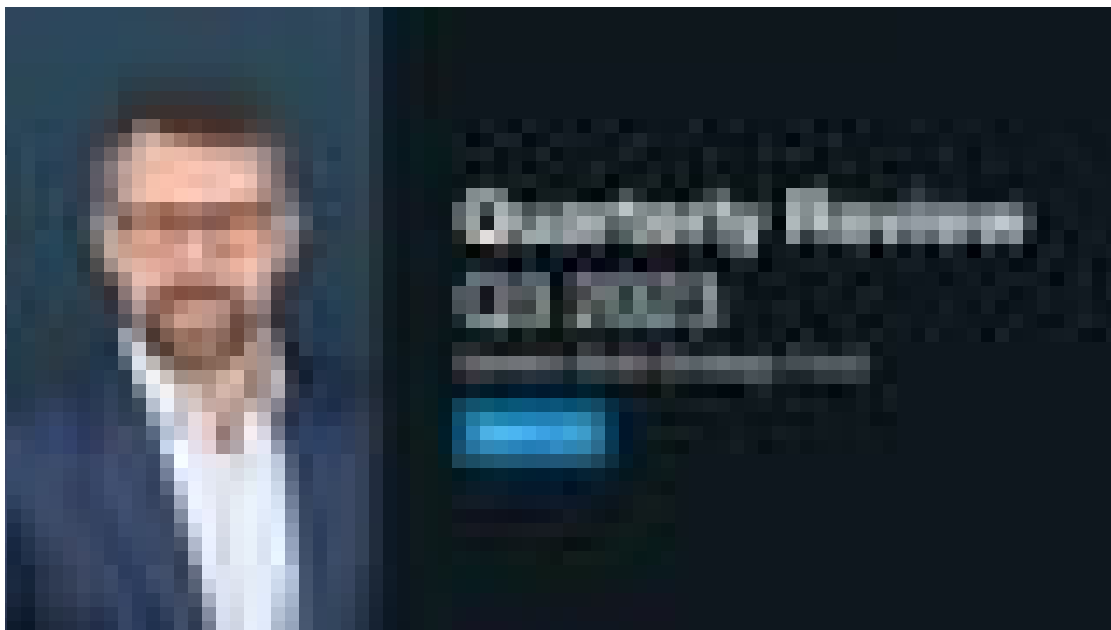


Sanlam Multi-Strategy Fund Quarterly Review - Q3 2023

Chris Rodgers is joined by Head of Multi Asset, **Mike Pinggera**, who provides an overview of the Sanlam Multi-Strategy Fund's performance, current market trends, and an outlook for the future.



You can also read our [quarterly investment update here](#).

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Full transcript

Chris Rodgers

Good morning. My name is Chris Rogers. I'm head of investments at Sanlam Investments UK here in London. And with me today is Mike Pinggera. Mike is head of our alternatives team and the lead manager on the Sanlam Multi-Strategy Fund, which is the fund we're going to talk about this morning. Mike, can you give us a little bit of a background to how the quarter Q3 has gone in terms of market movements? Has it been a difficult, challenging background?

Mike Pinggera

Yeah, sure. So I mean, the quarter was challenging. We saw the narrative of the market effectively you've move to higher for longer and that that narrative you really set the tone. So it put pressure on bonds, so upward pressure on yields, downward pressure on prices and obviously a knock on effect into equities. So the backdrop was a tough quarter.

For the fund we were broadly flat. So in terms of our "participate and defend" mandate, we defended quite well. So broadly a good quarter for the fund, but a difficult quarter for markets.

Chris Rodgers

Was it a quarter that prompted you to make many changes in the portfolio? Any key events that you'd like to highlight?

Mike Pinggera

No, I mean, it really was a effectively BAU business as usual quarter. We continued to redeploy maturing bonds and you know, there is a lot of value still to be had in that shorter duration end of the bond market. So we bought UK government bonds we bought two UK corporate bonds all with yields ranging between 5.5% and over 9%.

So but we've been doing that for quite some time. You know that the base level of yield in the portfolio is now at a pretty solid level.

Chris Rodgers

And have you been tempted to lengthen out the maturity of purchases to lock into these yields?

Mike Pinggera

So we try and maintain a short-duration bias all the time. So I have taken some of the maturities out around the 2028 area. So five years at about the longest, I'm not really tempted to go much beyond that, not least because in terms of long-duration assets, that's where we hold real assets with obviously with inflation linkage.

So in the bond space, I tend to keep that at the shorter end because I've got other longer-duration assets within the portfolio.

Chris Rodgers

Okay. Any changes in the real assets holdings?

Mike Pinggera

No. So we trimmed back a few names again. It was a period where there was quite a lot of pressure, so we had a number of names that hit stop loss levels and so positions were trimmed or cut back. But again, redeploying that into just direct equity. So into equity index exposure. So, no specific changes, mostly I'd say it was a BAU quarter. So just following our established processes.

Chris Rodgers

So moving on to performance, you said overall the fund was pretty flat, which is I think is respectable in a difficult period. Within that, I think there's quite a lot been going on of sort of pluses and minuses. Could you just talk us through that?

Mike Pinggera

Sure. So yeah, so the bond component, contributed positively around 2.5% positive from Bonds, which putting in context government bonds were actually down over the quarter. So a pretty solid positive return from a spread of governments and corporates just reflected the short duration nature of the portfolio and the income stream that we're now getting the negative contribution.

So your equities, where we are an equity index exposure, equity markets were down. So we captured some of that. But obviously the beta to that is 1 to 1. The big negative came from real assets. So and in particular from the renewable energy sector, I mean, Orsted, really you're really the main detractor in the fund.

So Orsted, as you know, is one of the world's largest owners and developers of offshore wind. And it's not the only thing they do, but it's a big part of the business. And they took the decision to write down the value of US projects. It's quite important to stress that write down is a write down of values.

It doesn't affect their earnings because these assets weren't producing any earnings anyway and as a slightly sort of broader sense, these are the projects that effectively there was a period of time, 12 to 18 months ago where you were bidding for projects, but you're now experienced as much higher. Your input cost of the build costs, supply chain issues, existing operational assets were unaffected by that and indeed future projects will be unaffected by that.

So Orsted made an announcement to write down the value of those projects and that had a very, very negative impact on the portfolio, which we would suggest is a buying opportunity certainly for investors in the long term, the need for renewables is not going away.

Chris Rodgers

So the overall weakness in the real assets was largely down to the renewables. Yeah, things like the specialist property which has struggled in the early part of the year, perhaps stabilized.

Mike Pinggera

Property. Yeah, in fact the property names are some of the best, the most of the positive contributors within real assets. So as you rightly say, the property names were quite early in the downturn. I mean, it was a natural read across to higher interest rates equals new lower property values. That is beginning to unwind now. So we are starting we're starting to see the lag in terms of rental growth is again starting to unwind.

So, those property companies with very high occupancy rates, I think we're about 98% occupied within the names that we own. They are starting to see rental growth come through and that rental growth is effectively offsetting the upward pressure on rates.

Chris Rodgers

Okay. So that's the past. Looking to the future, current positioning of the portfolio, how is it positioned and what are you looking forward to for the remainder of the year and beyond?

Mike Pinggera

Yeah, I mean we always try and position effectively with the profile of a diversified convertible. So I've got short duration bonds now producing a very healthy income stream, the real asset component, which is my long duration inflation linked assets again producing a healthy income stream. And then alongside that we've got out our equity exposure, which is all through index futures.

And there, you know, we will begin to increase that exposure systematically as you as and when your equity markets start to trend higher. So the overall positioning I'm very comfortable with the transition from lower rates to higher rates where we took that pain sort of 18 months ago in the bond space. I think that's behind us now.

Mike Pinggera

We're still waiting for the mood music to improve.

Chris Rodgers

Bond and cash holdings of 80%?

Mike Pinggera

Yeah cash and bonds Yeah just below 80%.

Chris Rodgers

Is that very much at the higher end of its historic range?

Mike Pinggera

Yes.

Chris Rodgers

Being paid now too to hold bonds.

Mike Pinggera

Yeah, absolutely. And indeed again some time ago now we switched some of the names that we held up in in real assets where we held the equity, we switched out of the equity into the debt. So you're going higher up the capital structure, but still getting an equity like return. But I mean, that was something we did close to a year ago.

So some of that real asset allocation currently sits within fixed income in the in the same underlying companies but just in a different part of the capital structure. So the outlook, the mood music in terms of the market I think in my view we are definitely nearer the top than the bottom in terms of the rate cycle.

Now we said right at the outset the narrative shifted to higher for longer. But I think it's just worth noting that if you if you believe the Fed dot plots rates are coming down next year and we're in Q4 now and the market tends to look 6 to 9 months ahead. So higher for longer is not that long.

But I think that's really what you're looking at there. If the if the mood music improves, that obviously will benefit bond positions. It will definitely benefit real asset positions, but it also presents a nice backdrop for equity markets to make progress. So yeah, very, very comfortable with where we are. But, but those transition periods, they can be a bit noisy.

So volatility, is likely to be something we have to live with.

Chris Rodgers

We have to be cautiously optimistic. Yeah, yeah, yeah.

Mike Pinggera

Cautiously optimistic is a good place to be.

Chris Rodgers

Okay. Thanks, Mike. Well, I hope that was interesting. If you have any questions, please do feel free to contact your Sanlam representative and we will put these questions to Mike and we'll get back to you. Thank you very much.