Sanlam Investments

Sanlam Global Inflation-Linked Bond Fund
Monthly Commentary
April 2022

Market/macro backdrop

Global bond markets had a tough month in April as they were roiled by uncertainty about the timing and magnitude of interest rate rises in the US, UK and Europe, concerns that high levels of inflation may be becoming embedded in some segments of the global economy, ongoing global supply chain disruptions due to China's 'Zero Covid' stance, and fears that the ongoing war in Ukraine runs the risk of becoming a protracted 'proxy war' between the West and Russia. The Barclays Global Aggregate index slumped to a US dollar loss of 5.5% (source: Bloomberg & JP Morgan). Global inflation linked bonds, which had been relatively resilient performers in the fixed income space in recent months, were unable to defy the broader market weakness seen in April. To give some perspective here, US nominal 10-year yields finished the month hovering close to 3%. In Europe, German 10-year Bunds (which had been negative-yielding assets for several years prior to 2022) have seen their yields climb to within touching distance of 1% at the time of writing (early May).

Performance vs sector/benchmark

The Fund produced a performance of -2.81% in April 2022 (source: Morningstar – X Acc units).
The Bloomberg Global Inflation Linked (hedged to GBP) index produced a performance of –3.20% (source: Bloomberg).

	Inception	1mth	6mth	1yr	3yrs	5yrs
Z Accumulation GBP	25/05/12	-2.8	-4.9	0.2	3.2	2.3
X Accumulation GBP	25/05/12	-2.8	-4.8	0.4	3.4	2.3

12 Months to	Apr-22	Apr-21	Apr-20	Apr-19	Apr-18
Z Accumulation GBP	0.2	4.1	5.5	2.2	n/a
X Accumulation GBP	0.4	4.3	5.6	2.3	n/a

- Performance beyond one year is annualised.
- **Past performance is not an indicator of future performance.**
- Source: Sanlam, Morningstar and Lipper as at 30/04/2022. Figures for periods longer than 12 months are annualized. NAV to NAV figures are used. Net of charges, assumes net income reinvested.

Positive and negative contributors (3 max for each)

Regionally, Japanese government bonds were relative outperformers in April and the Fund's holdings in that market continued to exhibit their diversification benefits. April's BoJ meeting bought no change in policy although the BoJ is coming under pressure to move away from its current 'yield curve control' approach. This is important; if JGB yields begin to re-price materially from their current levels, it is likely to have global implications.

By contrast, the EU periphery (particularly Italy) had a testing month due to the moves in global 'risk free' rates and worries that ECB rate rises are still a potential (but growing) tail risk for this year. Our decision to scale back our exposure in the periphery earlier in the year has proved to be well founded.

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Significant portfolio changes - buy/sells (3 max each)

The focus of April's activity was to keep the Fund resilient in an environment where risk-free rates have continued to recalibrate quickly.

Portfolio activity in April was focused on the middle of the curve as we exited our position in the 0.75% July 2028 US TIPS. In the UK, we exited 0.125% August 2031 index-linked Gilt. In France, we exited 0.1% OAT which matures in March 2026. In terms of additions, we added a position in the 0.125% January 2032 US TIPS.

Outlook

Central banks face the more or less impossible task of trying to bring inflation (which is at multi-decade highs) back under control without tipping their economies into recession. We believe this will be very difficult, not least because global supply chains remain disrupted (particularly in China) and there is very little that central banks can do to influence high energy and commodity prices. This means that there is a real risk that inflation remains a problem even if GDP growth begins to slow rapidly. The US dollar, meanwhile, has strengthened appreciably, and this will eventually become a headache for US exporters or US corporates with significant overseas revenues and earnings.

In the US, the 'trimmed mean' inflation rate (which strips out inflation components at both extremes) has topped 6% - something that has never happened before in the near 40-year history of the series. Data compiled by the Atlanta Fed shows that 'sticky' prices – i.e. those prices that tend to take a while to increase but once increased are difficult or very difficult to lower – have seen their fastest increase in three decades. In the UK and US, we should see a peak in inflation rates this year, particularly if the war in Ukraine comes to an end, but the benign era when central banks and investors didn't need to contemplate or manage inflation risks is over.

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Important Information

The Fund will invest in debt and debt-related securities. The government or company issuer of a bond might not be able to repay either the interest or the original loan amount and therefore default on the debt. This would affect the credit rating of the bond and, in turn, the value of the Fund. If long-term interest rates rise, the value of your shares is likely to fall. The Fund may invest in companies based in emerging markets, which may involve additional risks due to greater political, economic, regulatory risks, among other factors. Financial derivative instruments may be used for the purpose of hedging and efficient portfolio management. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions.

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 Authorised Corporate Director, the Investment Manager or at www.sanlam.co.uk. This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy.

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Smith and Williamson Investment 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 regulated by the Central Bank of Ireland. The Fund is managed by Smith & Williamson Investment Management (Ireland) Limited, Trinity Point, 10/11 Leinster Street South, Dublin 2, Ireland, Tel + 353 1 612 6476, Fax + 353 1 512 5362 which is authorised by the Central Bank of Ireland, as a UCITS Management Company. Smith & Williamson Investment Management (Ireland) has appointed Sanlam Investments UK Ltd as Investment Manager to this Fund.

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The fund price is calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income and expense accruals. Trail commission and incentives may be paid and are for the account of the manager. Performance figures quoted are from Sanlam and are shown net of fees. Performance figures for periods longer than 12 months are annualized. NAV to NAV figures are used. Calculations are based on a lump sum investment.

Please note that all Sanlam Funds carry some degree of risks which may have an adverse effect on the future value of your investment. 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 Fund prospectus and the KIID. All these documents explain different types of specific risks associated with the investment portfolio of each of our products and are available free of charge from the Manager or at www.sanlam.co.uk. 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. Use or rely on this information at your own risk. Independent professional financial advice should always be sought before making an investment decision as not all investments are suitable for all investors.

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