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Sanlam Global Inflation-Linked Bond Fund
Quarterly Update
Q1 2022

Key facts

Fund AuM	£235.9m
Number of Holdings	72
Fund Managers	Thomas Wells
Fund Launch Date	25 May 2012
Domicile	Ireland
Base Currency	Sterling
Fund Type	OEIC
IA Sector	Global Bonds
Morningstar Category	Global Inf. Linked £ H
Dealing Deadline	17:00 (GMT)
Settlement Time	T+4
Valuation Point	23:59 (GMT)
Distribution	Semi Annual

Market recap

Global bond markets had a poor start to 2022 as they were battered by inflation and interest rate concerns and then soaring commodity prices following Russia's invasion of Ukraine.

Globally, inflation-linked bonds proved to be the most resilient of the major fixed income sectors in Q1 2022, but they still posted losses in dollar total return terms. Global Investment Grade (which returned -7.4% in dollar terms as measured by the Barclays Global Aggregate Index) and EM debt (-9.3% in USD – JP Morgan EMBIG) were the major losers over the quarter.

On the policy front, it was a busy quarter. In the US, Q1 saw the 'lift off' for rate hikes, with a 25 bps move in March. The market's expectations for US rates have recalibrated very quickly; at the start of the year the market was looking for three or potentially four Fed rate hikes in 2022, now the median Fed member (as of 1 April) expects seven rate rises in 2022 and there are plenty of market participants who expect the Fed to do more than that.

In the UK, the BoE hiked rates twice in Q1, taking them to 0.75%. In Europe, President Lagarde left the door open to a rate rise this year, albeit this would occur 'some time' after the ECB's asset purchases have concluded. In the major government bond markets, Japan remained something of an outlier, as it maintained its easing stance in Q1 and emphasised the risks to growth rather than inflation.

Fund review

Inflation has come home to roost; US inflation is running at 40-year highs, UK CPI reached 6.2% in February (reported in March, with RPI inflation a full 200 bps higher than CPI) and in Europe euro area inflation was revised up to 5.9% in February. In EM Europe, inflation rates are well into double-digit territory, and in developed Europe Belgian inflation is running at 9.5%. France and Malta have relatively 'low' inflation rates of 4.2% (source: Eurostat), although this is still uncomfortably high for the ECB.

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Fund review (cont.)

In terms of portfolio activity, it was a relatively busy quarter for the Fund. In January, our main focus was to insulate the portfolio against the rise in market volatility; in particular, we reduced our exposure to peripheral Europe as that is one of the regions that will be most negatively affected by the re-set of 'risk-free' rates. February saw further de-risking of the portfolio and we exited our small position in nominal UK Gilts (which we use to hedge breakeven rates when required). The proceeds of the sales were redeployed into inflation-linked bonds.

Late February saw the emergence of a major war on the continent of Europe, an eventuality that few predicted at the start of the year. Risk assets initially sold off hard on this move, sending credit spreads wider, but since early March risk appetite has recovered somewhat. In the context of a rout for bonds generally (particularly amongst shorter maturities), we were pleased with the Fund's performance in Q1, but nonetheless, it was a quarter that many bond investors will want to forget.

Fund performance

12 Months to	QTR	1yr	3yrs	5yrs
Z Accumulation GBP	-3.0	3.7	4.1	n/a
X Accumulation GBP	-2.9	3.9	4.3	3.0

12 Months to	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Z Accumulation GBP	3.7	6.0	2.8	n/a	n/a
X Accumulation GBP	3.9	6.2	2.9	1.6	0.6

- Performance beyond one year is annualised.
- **Past performance is not an indicator of future performance.**
- Source: Sanlam, Morningstar and Lipper as at 31/03/2022. Figures for periods longer than 12 months are annualized. NAV to NAV figures are used. Net of charges, assumes net income reinvested.

Performance attribution

For the quarter, the Fund produced a performance of -2.9% in Q1 (X Acc GBP share class). For context, the Bloomberg Global Inflation-Linked Total Return index (hedged to GBP) produced a performance of -2.9%. Please note that we are supplying the data for informational purposes only.

Looking at attribution by country, our positioning in Japan (where we are overweight versus the index) worked well over the quarter. Japan has been one of the more resilient, lower volatility fixed income markets over Q1 and we continue to earn some carry on our FX hedges. Our positioning in peripheral Europe, and particularly Spain, also worked well in Q1, adding 5 bps to returns. However, as we've noted above, as the quarter progressed we began to de-risk in the EU periphery as we believe it could be vulnerable if there is further aggressive re-pricing of risk-free rates in the core European government bond markets. Looking elsewhere, our country positioning in Australia and France was a little less successful, with each of these markets costing 5 bps of relative performance in Q1.

Our yield curve positioning worked very well, adding 48 bps to returns in Q1, driven primarily by the UK (+56 bps) and US (+22 bps). However, yield curve positioning in Germany had an impact of -15 bps.

Drilling down to the individual bond level, our best performing position in Q1 was the 0.5% March 2050 UK Index-Linked Gilt, which had an impact of +12 bps. Our worst performing position, Network Rail's 1.125% 2047 bond, had an impact of -39 bps.

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Outlook

At the moment, the price of just about everything is going up. Petrol and energy price rises are evident everywhere, and whilst it is easy to blame all of this on Russia's invasion of Ukraine, the inconvenient fact is that European energy markets (particularly natural gas) were dysfunctional long before Putin's tanks rolled into Ukraine. We have long felt that European governments have been disingenuous about the significant economic pain that would be felt as the world tries to transition from hydrocarbons to cleaner sources of energy – and that view assumed that the transition would be phased in gradually and managed in some way. The war in Ukraine has highlighted just how difficult any forced or rapid transition is likely to be, and the huge costs that consumers will face. The problem, of course, is that the long-term costs of doing nothing to mitigate climate change are likely to be even worse.

In the meantime, European consumers face a cost of living crisis that is unprecedented in the 21st century. Whilst this is painful, perhaps the more worrying issue is what businesses and companies do in response to soaring prices: in the agricultural sector, we are hearing that farmers are choosing not to plant crops because energy and fertilizer prices are unaffordable, and/or they are concerned that, come harvest time (when energy prices may have moderated) food prices may also have dropped back and they won't be able to recoup the huge outlays that need to be made now. Many companies will have made up their own mind on inflation and indeed the Institute of Directors in the UK confirmed as much when it said that inflation is now 'hardwired into routine business decisions'. Labour shortages have not gone away either, with the Financial Times reporting that Britain is having to try and recruit unskilled labourers from as far away as Mongolia. There is also little evidence that global shipping costs are about to return to anything like pre-pandemic levels, which provides an ongoing headache for multinationals; paying a lot more for a standard shipping container does not mean you can fit more things in it, as retailers are finding out.

At times like these, consumers would perhaps look to the authorities for support, but we don't think they should expect too much help from central banks. Central banks have been raising rates despite the war in Ukraine and in the US Powell has already made it very clear that fighting inflation and stabilising prices will be prioritised, even if that means a hit to GDP growth. In Europe, the situation is a little more nuanced as Europe doesn't have the benefit of being self-sufficient in energy, but policymakers know that they have to do something to bring inflation down to more normal levels before it gets too embedded. Politically, governments will face growing pressure to mitigate the cost of living crisis, but it is worth remembering that governments have problems of their own; looking at the UK as an example, we reckon that there is around half a trillion pounds of debt that is linked to RPI inflation – which, as we noted above, is currently running well ahead of CPI inflation. Unfortunately, for central banks, there are no easy answers to the current crisis.

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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 and Sanlam Private Investments (UK) Ltd as Investment Manager to this Fund.

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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 relevant 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.

Contact us

Bruce Simpson
Head of Distribution and Marketing

+44 (0) 20 3316 4064
Bruce.Simpson@Sanlam.co.uk

Liz Adnitt
Head of UK Wholesale Distribution

+44 (0) 20 3116 4071
Liz.Adnitt@Sanlam.co.uk

Andy Groves
Account Director

+44 07917580592
Andrew.Groves@Sanlam.co.uk

Tom Whitfield
Account Director

+44 (0) 20 3116 4016
Tom.Whitfield@Sanlam.co.uk

Sanlam Investments

Monument Place
24 Monument Street
London
EC3R 8AJ