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Sanlam Hybrid Capital Bond Fund
Quarterly Update
Q1 2022

Key facts

Fund AuM	£163.3m
Number of Holdings	34
Fund Managers	Peter Doherty
	Guillaume Desqueyroux
Fund Launch Date	Aug-16
Domicile	Ireland
Base Currency	Sterling
Fund Type	OEIC, UCITS V
IA Sector	Sterling Strategic Bond
Morningstar Category	Other Bond
Dealing Deadline	12:00 (GMT)
Settlement Time	T+3
Valuation Point	23:00 (GMT)

Market recap

A very difficult quarter for fixed income markets as inflationary expectations determined by the Fed and most Central Banks have been reset higher. Geopolitics and the tragedy of what's happening in Ukraine has had not only the upsetting humanitarian consequences, but a knock-on effect on commodity prices and European growth expectations. The resurgence of coronavirus in China, with the domestic growth and global supply chain knock-ons of the authorities' zero-Covid policy, is yet to be fully felt.

Global corporate bond spreads experienced significant underperformance during most of the quarter but recovered their poise towards the final weeks of March, as market participants felt that the sell-off was too aggressive.

U.S. and European high yield default rates remain very low and with corporate bond yields now relatively attractive, inflows into the asset class are appropriate.

As alluded to above, with Central Bank inflationary expectations being set higher and market suggestions that the Fed and others are behind the curve, government bond prices fell significantly during the quarter. 5-year Treasuries fell 8%, UK Gilts 4% and German Bunds 5%.

Fund review

The first quarter of 2022 has been tumultuous for Fixed Income investors. As a reference point, the unhedged Bloomberg Global Aggregate index (ticker: LEGATRUU) has returned -6.2% year to date.

Q1 was challenging for the Fund, as we remained invested in the face of elevated and sustained inflation, the Russian invasion of Ukraine, higher government bond rates, wider credit spreads, limited action from issuers in the legacy book and little opportunity to profit from new issues. All these factors combined to the period return of -7.4%. The recent re-pricing has increased the Fund's headline yield, now comfortably above 5%, and the recent quarterly distribution displays its income generating abilities well. Additionally, we have seen numerous attractive entry points

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Fund review (cont.)
regarding underlying investments for the Fund. For example, recently, Bank of America issued $2bn shares of Preferred Stock at a yield of 6.125% - very attractive yield for a strong Investment Grade issuer with a market cap greater than $300bn.

At the end of Q4 the fund distributed £1.25 per share of the B GBP Income share class, taking the 12-month net income to £4.3. Taking into consideration the last 12-months of net income and the price of the B Inc GBP share class, the Current Yield of the Fund is 4.2%.

As of 31/03/2022:
Duration – 7.3
Yield to Worst (%) – 5.1

Fund performance

	Inception	3mth	6mth	YTD	1Yr	Since Inception
Fund (A GBP Acc)	30/08/2016	-7.4%	-8.0%	-7.4%	-3.8%	4.9%
Sector (IA £ Strategic Bond)		-4.3%	-4.5%	-4.3%	-2.4%	2.3%

	12 months to Mar 18	12 months to Mar 19	12 months to Mar 20	12 months to Mar 21	12 months to Mar 22
Fund (A GBP Acc)	10.6%	0.6%	-1.9%	18.6%	-3.8%
Sector (IA £ Strategic Bond)	2.3%	2.1%	-2.1%	13.0%	-2.4%

- 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. Class A net returns are used to illustrate the funds longest track record in the table above.

Performance attribution
The fund's top positive and negative contributors to performance in the quarter are listed below:

Positive:
Lifetri 5.25% 2032: 4.72% local return, contributing 0.09% to performance
Lifetri is an unrated life insurer in the Netherlands focusing on the DB-derisking activity. The sub-sector benefits from a strong pipeline of new business for the next few years.

Oaknorth 7.75% 2028: 0.80% local return, contributing 0.02% to performance
Oaknorth is a UK Challenger bank that we have been actively engaged with over the past 5 years. We expect this T2 bond to be called and refinanced in 2023, and if not, we earn an attractive 7.75% for the next 5 years to 2028.

Negative:
Rabobank 6.5% Perp: -13.70% local return, contributing -1.29% to performance
This € Preference Share re-priced with the combination of higher € 10 to 20 year rates and wider credit spreads. Running yield now more than 7% in £ and US $ which offers a lot of protection from here and a very attractive total return profile.

NIBC Bank Float Perp: -17.81% local return, contributing -0.54% to performance
This "Legacy bond" has remained outstanding, with the issuer giving the impression that this will remain the case. When pressed however, it is clear that the regulator has not signed off and that a 100 call is still very much in play in 2022/23.

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What to expect

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; for example, looking at the UK, 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 a full two points ahead of CPI inflation. Unfortunately, for central banks, there are no easy answers to the current crisis.

The quarter begins with a general concern on inflation and interest rates as well as growth expectations. Whilst the Investment Team does not forecast a peak in long term interest rate expectations there are suggestions from some analysts and strategists that pricing may have gone too far. As investors, we respect those suggestions but don't necessarily share them, and do not let that influence our investment philosophy, which is to identify companies with strong balance sheets, well capitalised structures, and transparency of earnings.

The Team would not be surprised to see the wides in corporate bond spreads tested again this year, given there are so many areas of uncertainty. The list is long, not least the beginning of 'Quantitative Tightening' although we do note that global corporate bond fundamentals are healthy, and the starting point of this year and indeed this quarter is solid.

Looking ahead, we have spent time speaking with our portfolio companies and see no material signs of stress in balance sheet credit quality. The headline yield on the fund is now over 5%, even without adjusting for any excess returns from the Legacy book. Including our base case return for the legacy book across 2022 / 23 we have a portfolio with a yield of 6% which we believe provides the platform for substantial total return once the interest rate, inflation and geopolitical influences become more benign.

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Important Information

The fund will invest in bonds and other debt instruments, this will be impacted by factors such as changes in interest rates and risk of default by the issuer. The Fund may engage in transactions in financial derivative instruments for hedging purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions. The Fund may invest in Contingent Convertible Securities (CoCos). The value of CoCos is unpredictable and will be influenced by many factors, without limitation (i) the creditworthiness of the issuers; (ii) economic, financial and political events that affect the issuer; (iii) general market conditions and available liquidity. The investor may not receive a return of principal if expected on a call date or indeed at any date.

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 sanlam.co.uk. A full summary of investor rights can be obtained from https://www.linkgroup.eu/policy-statements/irish-management-company/. Document is provided in English.

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Tideway UCITS Fund ICAV an Irish collective asset-management vehicle registered under the laws of Ireland having its registered office at 1st Floor, 2 Grand Canal Square, Grand Canal Harbour Dublin 2, Ireland. The ICAV is an umbrella type Irish collective asset-management vehicle with segregated liability between funds incorporated under the Irish Collective Asset-management Vehicles Act 2015 of Ireland and authorised by the Central Bank of Ireland. The Fund Manager is Link Fund Solutions (Ireland) Limited a company incorporated under the laws of Ireland having its registered office at 1st Floor, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland which is authorised by the Central Bank of Ireland. Link Fund Solutions (Ireland) Limited 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 Sanlam Universal Funds plc prospectus, the Fund supplement 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 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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