

# Sanlam Short Dated Corporate Bond Fund

Q3 2021 | Quarterly newsletter

## Market recap

Q3 was a busy and eventful quarter for fixed income investors. Looking at the major fixed income sectors, it was another good quarter for high yield (both in the US and Europe) and global inflation-linked bonds, as inflation concerns came home to roost. By contrast, dollar total returns from US Treasuries (Barclays US Aggregate Government Treasury index) were barely positive and similarly European government bonds struggled to make any headway in local currency terms. EM Debt and Global IG were the laggards over the quarter.

On the policy front, the Fed signalled that it will start tapering its asset purchases, perhaps as early as November, with the programme likely to come to an end by the middle of the next year. At the September meeting, the Fed's fabled 'dot plots' were more hawkish than many market participants had been expecting, which put upward pressure on US Treasury yields. The Bank of England's narrative was even more hawkish, with rate rises now a possibility later this year and almost certainly early next year. This unsettled the nominal market, not least because the Bank said it would consider hikes *before* the Quantitative Easing programme comes to an end. The European Central Bank also announced a reduction in the pace of its asset purchases, but went to great lengths to emphasise that it was not a taper.

## Fund review

Over the quarter, the Fund produced a performance of 0.2% (source: Morningstar, A Inc share class). For 2021 year to date, the Fund has posted a negative total return, but we would note it has comfortably outperformed the total return from 2-year Gilts (source: Bloomberg).

In our opinion, the Fund's explicit short duration approach and its diversification across different curves and a wide range of industry sectors should continue to provide an attractive and resilient shelter for cautious investors, as we seek to prioritise capital preservation and downside protection.

We have highlighted some key portfolios statistics below, taken from Morningstar:

As of 30/09/2021:

Modified duration: 1.7 years  
Yield to Worst (average, net): 0.75%

## Performance data

	Inception	QTR	1yr	3yrs	5yrs	Since Inception
<b>A Income GBP</b>	29/04/09	0.2	0.1	1.3	0.3	2.1
<b>Z Accumulation GBP</b>	31/03/17	0.5	0.8	1.9	n/a	1.5

Performance beyond one year is annualised

12 Months to	Sep-21	Sep-20	Sep-19	Sep-18	Sep-17
<b>A Income GBP</b>	0.1	1.2	2.5	-1.4	-0.8
<b>Z Accumulation GBP</b>	0.8	1.8	3.1	-0.9	

## Key facts

<b>Fund AuM</b>	£33.0m
<b>Number of Holdings</b>	53
<b>Fund Managers</b>	Guillaume Desqueyroux Darren Reece
<b>Fund Launch Date</b>	29 April 2009
<b>Domicile</b>	Ireland
<b>Base Currency</b>	Sterling
<b>Fund Type</b>	OEIC
<b>Dealing Deadline</b>	17:00 (GMT)
<b>Settlement Time</b>	T+4
<b>Valuation Point</b>	23:59 (GMT)
<b>Distribution</b>	Quarterly

**Past performance is not an indicator of future performance.**

Source: Sanlam, Morningstar and Lipper as at 30/09/2021. Figures for periods longer than 12 months are annualized. NAV to NAV figures are used. Net of charges, assumes net income reinvested.

## Performance attribution

We have highlighted below the best and worst individual performers (at credit level) over the quarter, using contribution data from Bloomberg, gross of fees:

### Top contributors:

CK Hutchison 2 $\frac{7}{8}$ % 04/05/22	+7 bps
CK Hutchison 3 $\frac{1}{4}$ % 11/08/22	+6 bps
Heineken 2 $\frac{3}{4}$ % 04/01/23	+6 bps

### Bottom contributors:

Adler 1 $\frac{7}{8}$ % 04/27/23	-5 bps
Adler 1 $\frac{1}{2}$ % 04/17/22	-1 bps
National Grid 1 $\frac{3}{8}$ % 09/16/26	-1 bps

As readers of our other fund updates may be aware, Adler has recently been the subject of a short sale recommendation from a research firm called Viceroy, which had a material effect on the bond and equity performance. Given the risk profile of the Fund it was decided it would be prudent to reduce the level of exposure and have now cut Adler completely from Short Dated Fund.

## Outlook

The Sanlam Short-Dated Corporate Bond Fund's strategy of intensive analysis of credit fundamentals, combined with an explicit short duration stance, should help to alleviate some of the headwinds that fixed income investors may face in the coming months.

Our overall message is that we consider the fundamental environment positive for credit markets and the outlook for an economic recovery improved, with many companies having strengthened their balance sheets. However, the outlook is not without risk, as valuations mostly factor in this positive outlook and threat of inflation and higher long-term interest rates should not be ignored. The investment team would also note that increasingly there appears to be less confidence surrounding a 'transitional' period of inflation with some hints of a more permanent outcome noted. Added to this, there are ongoing supply chain pressures, and elevated energy and commodity prices.

Increasing concern during the early part of the quarter of the more contagious Delta variant has, for now, fortunately not had a meaningful impact on hospitalisations. The vaccination rollout continues with its success and offers a clearer path out of the pandemic, providing opportunities within credit markets. Our themes and strategies will require a continuation of the disciplined and rigorous credit analysis that the investment team employs.

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## Important Information

The Fund invests in short-dated bonds. Investment in bonds and other debt instruments is subject to interest rate risk and credit ratings. 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. Exchange rate changes may cause the value of investments to go down as well as up.

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](http://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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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 Smith & Williamson 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 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](http://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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