Sanlam Investments

Sanlam Hybrid Capital 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. Emerging Market Debt and Global Investment Grade were the laggards over the quarter.

Government bond yields ticked up in Q3, with 10-year Gilt yields ending the quarter above 1%. In the final two months of the quarter we saw 10-year Gilt yields increase by circa. 50bps. Bear in mind that the increase in 10-year Gilt Yields from the low of about 0.5% in the summer represents a loss of about 4% in price terms which will then take about 4 years to recover at a 1% yield. These "return free risk" numbers should be watched carefully, especially in the context of higher nominal inflation numbers – which is a contributing factor to higher government bond yields in the first place.

Fund review

The fund ended the quarter up 1.1% in Sterling terms. The Investment Team is pleased with the strong performance this quarter. We outperformed our sector (IA Sterling Strategic Bond) by 0.8% in Q3.

At the end of Q2 the fund distributed £0.82 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 3.8%.

The portfolio has retained 15 – 20 % of NAV exposure to "Legacy Debt" and we see this as a source of stable returns between now and early 2022, when the securities will be bought back by their issuers. These securities have a lower current yield but have higher capital appreciation prospects and support the strong total return of the Fund. The recent quarterly income payment is lower than previous quarters as a result of this, however, in time we fully expect to bring income back in-line with previous figures.

As of 30/09/2020:
Duration – 7.1
Yield to Worst (%) – 4.4

Performance data

	Inception	1mth	3mth	6mth	YTD	1Yr	Since Inception
Fund (A GBP Acc)	30/08/2016	-0.20%	1.12%	4.51%	5.26%	10.56%	7.11%
Sector (IA £ Strategic Bond)		-0.59%	0.32%	2.17%	1.06%	4.94%	3.48%

Performance beyond one year is annualised

	Inception	12 months to Sep 17	12 months to Sep 18	12 months to Sep 19	12 months to Sep 20	12 months to Sep 21
Fund (A GBP Acc)	30/08/2016	13.18%	0.80%	8.30%	4.35%	10.56%
Sector (IA £ Strategic Bond)		3.37%	-0.06%	6.86%	3.07%	4.94%

Past performance is not an indicator of future performance.

Source: Sanlam, Link, Bloomberg as at 30/09/2021. Total return, NAV to NAV basis, net of charges, assumes net income reinvested.

Key facts

Fund AuM	£181.4m
Number of Holdings	41
Fund Manager	Peter Doherty
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)

Performance attribution

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

Positive:
Rabobank 19.437% Perp: 7.09% local return in Q3, contributing 0.28% to performance

- This security benefitted from positive broker research notes highlighting its cheapness, with some estimates showing up to 15% total return potential over the next 12-18 months.

Aegon Float Perp: 3.77% local return in Q3, contributing 0.14% to performance

- This security is a legacy issue with an expected early redemption of no later than Jan 2026 and probably sooner.

Negative:
Aviva 8.875% Perp: -3.12% local return in Q3, contributing -0.18% to performance

RSA 7.375% Perp: -1.46% local return in Q3, contributing -0.06% to performance

There was some weakness in the UK Preference Share market, affecting both above securities. This was on the back of the higher Gilt Yields and equity market sell off. We remain constructive on the total return outlook of these cumulative securities.

What to expect

We look to repeat our guarded message from last quarter which 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 so, there appears to be less confidence surrounding a transitionary 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.

Contact us

Bruce Simpson
Head of Distribution: South Africa

+44 (0)20 7280 8774
bruce.simpson@sanlam.co.uk

Liz Adnitt
Head of UK Wholesale Distribution

+44 (0) 20 3116 4071
liz.adnitt@sanlam.co.uk

Tom Whitfield
Account Director

+44 (0) 20 3116 4016
tom.whitfield@sanlam.co.uk

Andrew Groves
Account Director

+44 (0)7917 580 592
andrew.groves@sanlam.co.uk

Sanlam Investments, Monument Place, 24 Monument Street, London, EC3R 8AJ

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. AM0721(344)1021UKInst