

Sanlam Hybrid Capital Bond Fund

Q3 2020 | Quarterly newsletter

Market recap

Asset prices continued their move higher during the quarter, albeit September proved to be a sobering month for performance with risk assets broadly lower. The lack of a fiscal agreement in the U.S. as well as election jitters ahead of the Presidential Election on November 3rd contributed to understandable nervousness. Similarly, a ramping up of COVID cases globally, as well as a rise in tensions between the UK Government and the European Union on the Withdrawal Agreement, gave market participants much to think about as the quarter approached its close.

The Investment Team was particularly encouraged by the performance in September with the Funds holding steady despite the raised uncertainty.

Quantitative Easing actions by the various Central Banks do continue to provide a very strong positive technical factor with the broad decline in interest rates supporting corporate bond demand from both institutional and retail investors alike.

The Funds moved towards a multi-currency underlying portfolio during the Quarter with investments across Euro's, USD and Australian Dollars. The team are very satisfied with the subsequent performance contribution of these assets. This increased flexibility adds a powerful tool, not only towards diversifying the Funds, but also through opening up the wider investment universe, ultimately leading to a more robust and balanced portfolio.

Fund review

The fund ended the quarter up 4.5% in Sterling terms, resulting in -0.1% performance year-to-date.

In Q2 2020 the fund increased its Tier 1 exposure, purchasing securities cheaply following the market sell-off in March. These Tier 1 securities rebounded very well in Q3 2020 and have been some of the main contributors to the fund's strong performance. The fund maintained a healthy cash balance, with some added Gilt exposure, early in Q3 2020, as we remained cautiously constructive in these uncertain times and prepared ourselves for an active primary market in September. These Gilts were sold towards the end of Q3 and the monies were invested in attractive primary market deals.

Away from us, equity dividend income remains very much under pressure across Europe and the UK and the ongoing delivery of secure income from the Hybrid Capital market must be highlighted as an important positive differentiator. At the end of Q3 the fund distributed £1.19 per share of the GBP Income share class, broadly in line with the 5% annual net income target. Looking forward we fully expect to get back to target net income.

As of 30/09/2020:

Effective duration (%) – 5.64

Yield to Worst (%) – 5.08

Performance data

	Inception	1mth	3mth	6mth	YTD	1Yr	Since Inception
Fund (A GBP Acc)	30/08/2016	0.2%	4.5%	12.2%	-0.1%	4.3%	6.3%
Sector (IA £ Strategic Bond)		0.0%	1.9%	10.0%	2.2%	3.1%	3.1%

Performance beyond one year is **annualised**

	Inception	12 months to Sep 16	12 months to Sep 17	12 months to Sep 18	12 months to Sep 19	12 months to Sep 20
Fund (A GBP Acc)	30/08/2016	-	13.2%	0.8%	8.3%	4.3%
Sector (IA £ Strategic Bond)		-	-	-0.1%	6.9%	3.1%

Key facts

Fund AuM	£162.6m
Number of Holdings	38
Fund Manager	Peter Doherty
Fund Launch Date	Aug-16
Domicile	Ireland
Base Currency	Sterling
Fund Type	OEIC, UCITS IV
IA Sector	Sterling Strategic Bond
Morningstar Category	Other Bond
Dealing Deadline	12:00 (GMT)
Settlement Time	T+3
Valuation Point	23:00 (GMT)

Past performance is not an indicator of future performance.

Sources: Sanlam, Link, Bloomberg.

Performance attribution

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

Positive:

Pension Insurance 7.375% Perp, returning 10.72% in Q3, contributing 0.75% to performance

Rothsay 6.875% Perp, returning 10.52% in Q3, contributing 0.45% to performance

The RT1 asset class has strongly rebounded over the quarter from the lows experienced in Q2. Both RT1s have benefited from it on the back of strong capital and solvency numbers.

Negative:

Assicurazioni Generali 6.269% Perp, returning -1.61% in Q3, contributing -0.05% to performance - the company is well diversified across Europe and different business lines.

Vivat 7% Perp, returning -0.58% in Q3, contributing -0.02% to performance

What to expect

The Investment Team remain cautiously constructive heading into Q4, but are fully aware of the very strong performance over the past six months, as well as some of the elevated prices on many corporate bonds currently. The Team will remain disciplined in its decision making and continue to rely even more heavily on its fundamental credit research process.

Ultimately, the financial markets' and indeed the worlds' focus will be on the U.S. Presidential Election as well as the outcome of the UK's withdrawal from the European Union. Undoubtedly these events will raise the level of volatility in financial markets, however, this will also present us with opportunity.

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Important Information

The Fund may invest in companies based in emerging markets which may involve additional risks not typically associated with other more established markets such as increased risk of social, economic and political uncertainty. The Fund has holdings which are denominated in currencies other than sterling and may be affected by movements in exchange rates. Consequently the value of an investment may rise or fall in line with the exchange rates.

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 Manager, the Investment Manager or at www.sanlam.ie.

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The Fund is a sub-fund of the Sanlam Universal 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 authorised by the Central Bank. The Fund is managed by Sanlam Asset Management (Ireland) Limited, Beech House, Beech Hill Road, Dublin 4, Ireland, Tel + 353 1 205 3510, Fax + 353 1 205 3521 which is authorised by the Central Bank of Ireland, as a UCITS Management Company and Alternative Investment Fund Manager, and is licensed as a Financial Service Provider in terms of Section 8 of the South African FAIS Act of 2002. Sanlam Asset Management is a registered business name of Sanlam Asset Management (Ireland) Limited. Sanlam Asset Management (Ireland) has appointed Sanlam Investments UK Ltd or 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 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 the Manager or at www.sanlam.ie. 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. AM1020(213)0121UKInst