

Sanlam GBP Hybrid Capital Bond Fund

Q2 2020 | Quarterly newsletter

Market recap

Asset prices rallied significantly during the quarter as investors' confidence in the markets was boosted by the Fed's, ECB's and Bank of England's support, which in places included High Yield and ETFs as well as Investment Grade credit.

With these QE actions providing a very strong positive technical factor, we would note that the upcoming earnings season may act as a reminder on how poorly global corporate risk has been impacted by COVID-19. While visibility remains limited on short term prospects, expectations and priorities from management teams may become key as corporates look to preserve their credit rating as the economies lurch into the economic downturn.

The Investment Team remain cautiously constructive but are fully aware of the very strong performance over the quarter, the heightened risk of further COVID-19 outbreak and political uncertainty, in particular China and the U.S.

Fund review

The fund ended the quarter up 7.3% in Sterling terms, resulting in -4.4% performance year-to-date.

The allocation to Tier 1 exposure at the beginning of the quarter was lower than usual at just over 13% as the Investment Team positioned itself more defensively in the uncertain environment. As technicals improved and earnings season passed without undue alarm the allocation was increased to approximately 25% through investments in Legal & General and Pension Insurance Corporation.

Dividend income remains very much under pressure across Europe and the UK and the ongoing delivery of secure income from the Hybrid Capital market has to be highlighted as an important positive differentiator. The fund's Q2 net income distribution of £1.17 per share of the GBP Income share class is very slightly below the 5% annual net income target, reflecting a period of higher cash balance during the early part of Q2, but looking forward we fully expect to get back to target net income.

As of 30/06/2020:

Effective duration – 6.24

Yield to Worst (%) – 5.32

Performance data

	Inception	1mth	3mth	6mth	YTD	1Yr	Since Inception
Fund (A GBP Acc)	30/08/2016	1.0%	7.3%	-4.4%	-4.4%	2.2%	5.5%
Sector (IA £ Strategic Bond)		1.5%	7.9%	0.2%	0.2%	3.1%	2.8%

Performance beyond one year is annualised

	Inception	12 months to Jun 16	12 months to Jun 17	12 months to Jun 18	12 months to Jun 19	12 months to Jun 20
Fund (A GBP Acc)	30/08/2016	-	-	3.3%	5.9%	2.2%
Sector (IA £ Strategic Bond)		-	-	0.4%	5.1%	3.1%

Key facts

Fund AuM	£130.9m
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:

Aviva 6 ½ 05/20/58, returning 26.48% in Q2, contributing 1.31% to performance

Rothsay 6 ¾ PERP, returning 20.90% in Q2, contributing 0.67% to performance

Negative:

Legal & General 5 ¾ PERP, returning -0.86% in Q2, contributing -0.03% to performance

Paragon 6 12/05/20, returning -1.76% in Q2, contributing -0.01% to performance

Aviva and Rothsay have strongly rebounded during the market rally experienced over the quarter. The former on the duration element, the latter on the investors' appetite for RT1s. Legal & General is a brand new RT1 issued at the end of the quarter and will be an important long-term holding of the fund.

What to expect

The Sanlam GBP Hybrid Capital Bond Fund is expecting to move to multi-currency underlying portfolios in the near future. Any currency exposure will be hedged out fully. This presents another opportunity in the form of diversification, as well as a wider investment universe, allowing the team to further reduce UK-centric risk.

The Investment Team are in the process of finalising their ESG Policy and framework. We are committed to generating sustainable and responsible investment returns for our clients, with an emphasis on consistent income generation. ESG analysis is becoming an integral part of our research process, applying an extra layer of screening to support long term sustainable returns, and thereby improving the average integrity of our portfolio companies.

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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. AM0720(185)1020UKInst