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Quarterly Update

Sanlam US Dollar Enhanced Yield Fund

Q4 2023

Market Review

The US economy finished the year on a positive note, with rates rallying, spreads tightening and equity markets closed on all time highs. The 10 year yield has ended the quarter at 3.9%, down from an October high of nearly 5%.

Consumer Price Index has risen by 4.1% over the year, with annualised growth of 3.2% in October, 3.1% in November and 3.4% in December. While still away from the target, this is a material improvement from previous year and reflected in the expectations that the hiking cycle is now come to the end. The market implied expectations of the Fed response function indicate a rate cuts in Q2 of 2024, consistent with the minutes from the Federal Open Market Committee and their dot plots. Their expected end of 2024 range for the policy rate was 4.5-4.75%, a decrease of 75bp, which is still half of the market expected rate cuts.

The labour market has remained strong, with unemployment rate at 3.8% in October, then decreasing to 3.7% in November and December.

Credit markets have been consistent with equity markets, marking a decrease in spreads, in particular in higher rated issuers. The end of quarter levels have been largely in line with historical averages. The rates sensitive sectors such as IT or RE have outperformed, while the energy sector has posted weaker results due to oil prices.

The US economy has outperformed its EU counterparts, where most major economies have hovered close to zero growth levels. Both the ECB and BoE are expected to follow suite with rate cuts in 2024, yet at a slightly slower pace. China has opted for fiscal and monetary stimulus in response to weak internal demand, mainly aimed at the real estate sector and producers.

Fund Review

The Sanlam USD Enhanced Yield Fund achieved a return of 1.8% over the course of Q4 2023 vs a SOFR benchmark which achieved 1.35%.

Performance was primarily driven credit spread return on corporate bond holdings which form the majority of the portfolio.

This resulted in an overall net outperformance of 60bps over the course of the quarter.

Fund Information

Fund AUM (GBP)	102,463,912
Fund Launch Date	01 July 2020
Base Currency	US Dollar
Benchmark	ICE BofA SOFR Overnight Offer TR USD
Morningstar Category	USD Diversified Bond - Short Term
Fund Type	OEIC
Management Company	Sanlam Asset Management (Ireland) Limited
Administrator	Brown Brothers Harriman Fund Administration Services (Ireland) Limited
Dealing Deadline	16.00
Valuation Point	22.00
Settlement Period	T+2
Risk Reward Indicator	2
Yield to Maturity	2.81

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Annualised Performance*

	QTD	YTD	1 Year	3 Year	5 Year
B USD	1.8	8.1	8.1	2.0	-
SOFR Overnight USD	1.3	5.2	5.2	2.3	-

Discrete Performance

12 months to	Dec 23	Dec 22	Dec 21	Dec 20	Dec 19
B USD	8.1	-1.6	-0.2	-	-
SOFR Overnight USD	5.2	1.7	0.0	-	-

Past performance is not an indicator of future performance. **Performance beyond one year is annualised.*

Source: Morningstar as at 31 December 2023. NAV to NAV figures are used. Net of charges, assumes net income reinvested.

Portfolio Activity

Over the course of the quarter, we have continued to reinvest redemptions in short-dated credit and commercial paper across a diverse pool of issuers.

We maintain an allocation to credit out to 5 years whilst hedging interest rate exposure using treasury futures.

Outlook

The portfolio retains its strategic allocation to short-dated investment grade credit while hedging out the majority of interest rates risk and using money market instruments for liquidity purposes.

We expect that the hiking cycle has now come to an end – while an uptick in inflation is possible, the more likely reaction function would be to hold steady instead of raise interest rates further. The expected beginning of the easing of monetary policy is currently priced at the end of Q1 2024, either at the March or May meeting with an expected price cut of 25bp. The market is pricing in 7 rate cuts in 2024 with both CPI and PCE nearing the 2% mark by the end of the year (2.6% and 2.4% respectively).

Following the spread compression of the Q4 2023 and equities to all-time highs, the risk markets have been positive in their outlook. While there are warning signs about the consumer strengths with rising credit card delinquencies, the numbers are still below historical distressed territories and thus the soft landing scenario remains plausible. The tighter pricing is however reducing the attractive opportunity set and thus cautious is require in credit selection, in particular with respect to sector specific risk repricing.

The portfolio does not have a direct exposure to inflation, and we hedge the majority of term structure risk. The diversified profile of the issuers across industries and geographies in the portfolio is important for credit risk management purposes and we take advantage of tactical pricing opportunities to bias the portfolios towards the better-rated and more stable companies while carefully assessing individual sector and issuer-specific risks.

Important Information

The fund will invest in debt securities. 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. Investment in bonds and other debt instruments (including related derivatives) is subject to interest rate risk. If long-term interest rates rise, the value of your shares is likely to fall. The Fund may engage in transactions in financial derivative instruments for Share Class hedging purposes only. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions.

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.co.uk. A full summary of investor rights can also be found online at https://www.sanlam.co.za/ireland/Documents/SAMI%20Shareholder%20Engagement%20Policy.pdf Documents are provided in English.

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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

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