Sanlam Investments

Sanlam Hybrid Capital Bond Fund

Q2 2021 | Quarterly newsletter

Market recap

The demand for credit risk remains stable and resilient, and this is despite the likelihood of tapering in the coming months from both the ECB and the Fed, alongside the seasonal slowdown of purchases by Central Banks during the summer period. Notably, the Fed chose to signal that it may hike interest rates a little sooner than previous projections (but still not until 2023), however, this also failed to dampen investor enthusiasm.

The key drivers for stable corporate bond performance are an accommodative central bank, strong technical, ongoing economic recovery and an expectation that the earnings rebound will lead to a speedy improvement in balance sheet fundamentals. The supportive factors can be seen across several central banks.

Long-term Interest rate pressures continue to level off from the dramatic upswing in Q1, driven by more moderate economic indicators, which is another supportive factor to the ongoing demand for corporate risk.

Fund review

The fund ended the quarter up 3.34%% in Sterling terms. The Investment Team is particularly pleased with the particularly strong performance this quarter. We outperformed our sector (IA Sterling Strategic Bond) by 1.50% in Q2.

This quarter we saw particularly strong performance from our Legacy paper and Preference Share books.

The European Banking Association (EBA) offered further clarity on expectations for treatment of certain securities from Jan. 2022 which left the impression that issuers will be more likely to call and re-issue new capital notes than try to reclassify current outstanding bonds. With more calls being exercised by various issuers, the direction of travel is becoming clearer, and this momentum has the potential to deliver reasonable returns over the next 6 months, although as ever this is by no means certain.

The high comfort level of market participants led to the virtual elimination of the "New Issue Premium" and several deals traded flat towards the end of the quarter. We will need to see a softer market for the premium to come back but there is no sign of this as of yet.

At the end of Q2 the fund distributed £0.97 per share of the B GBP Income share class, taking the 12-month net income to £4.64. 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 4.11%

As of 30/06/2020:
Effective duration (%) – 6.76
Yield to Worst (%) – 4.50

Performance data

	Inception	1mth	3mth	6mth	YTD	1Yr	Since Inception
Fund (A GBP Acc)	30/08/2016	1.04%	3.35%	4.09%	4.09%	14.25%	7.25%
Sector (IA £ Strategic Bond)		0.79%	1.84%	0.77%	0.77%	6.66%	3.53%

Performance beyond one year is annualised

	Inception	12 months to Dec 16	12 months to Dec 17	12 months to Dec 18	12 months to Dec 19	12 months to Dec 20
Fund (A GBP Acc)	30/08/2016	-	3.35%	5.94%	2.23%	14.25%
Sector (IA £ Strategic Bond)		-	-	5.13%	3.11%	6.66%

Past performance is not an indicator of future performance.

Source: Sanlam, Link, Bloomberg as at 30/06/2021

Key facts

Fund AuM	£186.4m
Number of Holdings	43
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)

Performance attribution

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

Positive:
Carlyle 4.625% 2016, local return of 3.58% in Q2, contributing 0.27% to performance

- Cumulative Preference Share issued by Carlyle Group at an attractive yield for an investment grade security. We received full allocation and had a large position of $20 million (circa. 7% of NAV), with a view to scaling out into the developing retail bid.

Quintet Private Bank 7.5% Perp, local return of 5.73% in Q2, contributing 0.26% to performance

- Quintet Private Bank AT1 – Peter Doherty had a Q1 update from Quintet Management team in May. Management confirmed business is on track, gave confidence in overall strategy and highlighted the good relative value in the security. We were comfortable with position sizing following this update and the security performed well through the quarter.

Negative:
Bank of Ireland 1.375% 2031, local return of -0.57% in Q2, contributing -0.01% to performance

- New issue that we allocated a small position size to. The new issue did not trade well and came into a weakening market, thus, we traded out of the position quickly.

No other negative contributors in the quarter

What to expect

We look to repeat our guarded message from last month 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. It must be noted that our portfolio duration-and-yield mix plus the core of Legacy paper offers some protection available against rising bond yields whilst allowing participation if yields fall.

Increasing concern around the spread 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 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 yield is gross and could be higher than what you will receive in the future. 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 (CoCo's). The value of CoCos is unpredictable and will be influenced by many factors including, without limitation (i) the creditworthiness of the issuer and/or fluctuations in such issuer's applicable capital ratios; (ii) supply and demand for the CoCos; (iii) general market conditions and available liquidity and (iv) economic, financial and political events that affect the issuer, its particular market or the financial markets in general. The investor may not receive a return of principal if expected on a call date or indeed at any date.

The Fund may invest in in derivatives for the purpose of hedging, efficient portfolio management and/or investment purpose. 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 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 sanlam.co.uk.

Issued and approved by Sanlam Investments which is authorised and regulated by the Financial Conduct Authority. Sanlam Investments is the trading name for our two Financial Conduct Authority (FCA) regulated entities: Sanlam Investments UK Limited (FRN 459237) and Sanlam Private Investments (UK) Ltd (FRN 122588), both having its registered office at 24 Monument Street, London, EC3R 8AJ.

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