Sanlam Investments

Sanlam Real Assets Fund

Q1 2019 | Quarterly newsletter

Market recap

In January, with reports of a slowdown in the Chinese economy and the forecast of weaker than expected earnings from Apple, the first few days of 2019 looked set to see the market weakness of the preceding quarter continue. However, the next few days saw the Chinese authorities step in with supportive measures and the US Federal Reserve soften their tone on the likely path of interest rates. The interventions from the authorities had a significant positive effect and markets posted strong gains by the month end. In the UK the Brexit saga continued to rumble on and even as the deadline moved closer we were no clearer on exactly what either a positive or negative outcome would look like.

In February, on the international stage signs of progress on US trade talks allowed markets to maintain the positive run from January. On the domestic front there was little progress on a Brexit agreement and the prospect of a delay or possibly even a second referendum increased. However, despite this uncertainty Sterling continued to strengthen against the Euro and the US Dollar. UK stocks with a domestic focus outperformed internationally-focussed stocks and by the month end the FTSE250 index was up 10.3% compared to the FTSE100 that was up 6.5%.

In March the Brexit deadline came and went and the UK parliament appeared no closer to an agreement. Over the pond president Trump was boosted by the Robert Mueller report which did not link him (directly) to any Russian interference. Despite markets appearing to be quite weary of both of these on-going events, equity and bond markets pushed higher over the month. However, the bond markets and equity markets are sending different messages; bonds moved higher on fears of a pending recession and equities moved higher on positive expectations supported by continued stimulus measures. In isolation these views are perfectly acceptable, but they do not sit so well together.

Fund review

Despite the risks on the political stage, the first quarter of the year brought a strong recovery across equity markets, and with it, the real asset fund delivered some of its strongest performance since inception. The performance was accompanied by lower volatility; the annualized 90 day volatility of was 4.79%, compared to the MSCI World volatility of 14.32% and FTSE volatility of 14.41%. The fund saw positive contributions from infrastructure, property, renewables and other alternatives.

During the quarter, one new position in the specialist property space was added to the portfolio, providing new exposure to long-term, fully index-linked cash flows generated from supermarket assets. A series of placings and fundraises in the primary market helped to reinforce the existing holdings, enabling the acquisitions of pipelines and reductions in leverage. Over the quarter, primary market funds raised in aggregate across our holdings amounted to almost £1bn of fresh capital. This further demonstrates the appeal of the sector and the market appetite for real assets in the current environment.

Source: Bloomberg as at 31/03/2019. Past performance is not an indicator of future performance.

Outlook

Looking to 2019, geopolitical uncertainty and the debate around normalising rates are likely to continue to weigh on equity markets that have enjoyed an extended cycle. The path of US interest rates will play a key role in the performance of equity markets while US trade policies (disputes, negotiations and agreements) will highlight that uncertainty can offer the prospect of both positive and negative outcomes. The Brexit clock continues to tick down and will undoubtedly impact sterling and the direction of large-cap UK stocks. Bond markets will continue to see divergence across countries and credit quality. Market expectations of rate rises in the near term have been somewhat alleviated by the softer tone from the Federal Reserve, but have the potential to cause some concern if and when it reignites at some point in the future.

The fund continues to hold and pursue investments that fit our long-term “pillars of a functioning economy” theme with long-term, stable and predictable cash generative assets with defensive characteristics. The fund possesses a yield of 4.1% with a degree of inflation linkage and a portfolio beta of 0.29.

Key facts

Fund AuM	£99.5m
Strategy AuM	£99.5m
Number of Holdings	27
Portfolio Yield*	4.1%
Fund Manager	Mike Pinggera
Benchmark	CPI+4%
Fund Launch Date	21 August 2018
Domicile	Ireland
Base Currency	Sterling
Fund Type	OEIC, UCITS V
IA Sector	IA Specialist
Morningstar Category	Alt - Other
Dealing Deadline	11:00 (GMT)
Settlement Time	T+3
Valuation Point	Midday (GMT)
Distribution	Monthly

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Important Information

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 Fund may invest in derivatives for the purposes of efficient portfolio management and hedging only . There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions. Part of the fund may invest in fixed income 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 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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