

Sanlam Model Portfolios

June 2020

Welcome to our monthly update on the Sanlam Collective Model Portfolios.



Performance – to end of May 2020

Model Benchmark	May-20	3 Month	6 Month	Year to date	One Year	Two Year**	Three Year**	Five Year**	Since Inception**	2019	2018	2017
SANLAM PLATFORM												
Sanlam Active Conservative	2.22%	0.21%	0.72%	0.13%	5.29%	3.65%	3.38%	4.88%	5.53%	10.51%	-2.15%	6.96%
IA Mixed Investments 0-35% Shares	2.10%	-1.31%	-1.68%	-2.29%	1.62%	1.50%	1.33%	2.59%	3.73%	8.80%	-3.41%	4.97%
Inception date: 31st August 2010	0.12%	1.52%	2.39%	2.42%	3.67%	2.15%	2.05%	2.29%	1.80%	1.71%	1.26%	1.99%
Conservative Strategic Asset Allocation	2.16%	0.19%	1.28%	1.10%	5.97%	5.10%	4.22%	5.72%	6.27%	11.14%	-1.12%	6.47%
Sanlam Active Defensive	2.65%	0.46%	-0.27%	-1.04%	4.79%	-	-	-	3.66%	-	-	-
IA Mixed Investments 20-60% Shares	2.73%	-2.36%	-4.37%	-5.55%	0.01%	-	-	-	-0.20%	-	-	-
Inception date: 31st August 2018	-0.08%	2.82%	4.10%	4.50%	4.78%	-	-	-	3.86%	-	-	-
Defensive Strategic Asset Allocation	2.72%	0.17%	-0.01%	-0.42%	5.16%	-	-	-	4.58%	-	-	-
Sanlam Active Cautious	3.08%	0.62%	-1.53%	-2.51%	4.03%	2.26%	2.84%	4.98%	6.63%	13.84%	-4.64%	8.83%
IA Mixed Investments 20-60% Shares	2.73%	-2.36%	-4.37%	-5.55%	0.01%	0.28%	0.89%	2.74%	4.66%	12.08%	-5.11%	7.19%
Inception date: 31st August 2010	0.35%	2.98%	2.84%	3.04%	4.02%	1.98%	1.95%	2.24%	1.97%	1.76%	0.48%	1.64%
Cautious Strategic Asset Allocation	3.31%	0.13%	-1.41%	-2.06%	4.25%	3.55%	3.57%	5.68%	7.22%	14.25%	-3.28%	8.33%
Sanlam Active Balanced	3.61%	0.77%	-3.02%	-4.22%	3.15%	1.43%	2.70%	5.29%	7.17%	15.87%	-5.68%	10.37%
IA Mixed Investments 40-85% Shares	3.65%	-0.80%	-4.26%	-5.68%	1.39%	0.94%	2.08%	4.15%	6.45%	15.94%	-6.07%	10.05%
Inception date: 31st August 2010	-0.05%	1.57%	1.24%	1.46%	1.75%	0.48%	0.62%	1.14%	0.72%	-0.08%	0.39%	0.33%
Balanced Strategic Asset Allocation	3.98%	0.06%	-3.00%	-3.92%	3.18%	2.65%	3.37%	5.85%	7.76%	16.07%	-4.26%	9.94%
Sanlam Active Growth	4.11%	1.01%	-4.52%	-5.90%	2.27%	0.55%	2.50%	5.50%	7.65%	18.01%	-6.89%	11.93%
IA Flexible Investment	3.88%	-0.79%	-4.10%	-5.82%	1.45%	0.52%	1.96%	4.13%	6.47%	15.64%	-6.64%	11.08%
Inception date: 31st August 2010	0.23%	1.81%	-0.42%	-0.08%	0.82%	0.03%	0.55%	1.37%	1.18%	2.36%	-0.25%	0.85%
Growth Strategic Asset Allocation	4.70%	-0.04%	-4.71%	-5.89%	2.00%	1.65%	3.08%	5.94%	8.21%	18.00%	-5.36%	11.53%
Sanlam Active Adventurous	4.45%	1.19%	-5.65%	-7.12%	1.64%	-0.02%	2.60%	5.91%	8.46%	19.83%	-7.58%	13.77%
IA Global	6.03%	4.62%	-0.85%	-1.86%	7.41%	4.96%	6.18%	8.63%	9.88%	22.01%	-5.71%	13.87%
Inception date: 31st August 2010	-1.58%	-3.43%	-4.80%	-5.26%	-5.78%	-4.98%	-3.58%	-2.72%	-1.42%	-2.18%	-1.87%	-0.10%
Adventurous Strategic Asset Allocation	5.33%	-0.15%	-6.24%	-7.65%	0.90%	0.77%	2.94%	6.11%	8.74%	19.71%	-6.18%	13.41%
Sanlam Index Conservative	2.41%	-1.52%	-0.55%	-0.93%	3.69%	3.25%	3.13%	4.95%	5.65%	10.76%	-1.99%	6.46%
IA Mixed Investments 0-35% Shares	2.10%	-1.31%	-1.68%	-2.29%	1.62%	1.50%	1.33%	2.59%	3.73%	8.80%	-3.41%	4.97%
Inception date: 31st December 2011	0.31%	-0.21%	1.13%	1.36%	2.08%	1.75%	1.80%	2.35%	1.92%	1.96%	1.42%	1.49%
Conservative Strategic Asset Allocation	2.16%	0.19%	1.28%	1.10%	5.97%	5.10%	4.22%	5.72%	6.41%	11.14%	-1.12%	6.47%
Sanlam Index Defensive	2.89%	-1.09%	-1.25%	-1.84%	3.56%	-	-	-	3.07%	12.21%	-	-
IA Mixed Investments 20-60% Shares	2.73%	-2.36%	-4.37%	-5.55%	0.01%	-	-	-	-0.20%	12.08%	-	-
Inception date: 31st August 2018	0.16%	1.27%	3.12%	3.71%	3.56%	-	-	-	3.27%	0.13%	-	-
Defensive Strategic Asset Allocation	2.72%	0.17%	-0.01%	-0.42%	5.16%	-	-	-	4.58%	12.64%	-	-
Sanlam Index Cautious	3.39%	-0.64%	-2.03%	-2.82%	3.41%	2.44%	2.98%	5.23%	6.77%	13.80%	-3.93%	8.40%
IA Mixed Investments 20-60% Shares	2.73%	-2.36%	-4.37%	-5.55%	0.01%	0.28%	0.89%	2.74%	4.66%	12.08%	-5.11%	7.19%
Inception date: 31st December 2011	0.66%	1.71%	2.34%	2.72%	3.40%	2.16%	2.08%	2.49%	2.11%	1.72%	1.19%	1.21%
Cautious Strategic Asset Allocation	3.31%	0.13%	-1.41%	-2.06%	4.25%	3.55%	3.57%	5.68%	7.35%	14.25%	-3.28%	8.33%
Sanlam Index Balanced	3.98%	-0.19%	-2.99%	-4.03%	3.10%	1.92%	3.02%	5.59%	7.50%	15.62%	-4.89%	10.11%
IA Mixed Investments 40-85% Shares	3.65%	-0.80%	-4.26%	-5.68%	1.39%	0.94%	2.08%	4.15%	6.45%	15.94%	-6.07%	10.05%
Inception date: 31st December 2011	0.32%	0.61%	1.27%	1.64%	1.71%	0.97%	0.94%	1.44%	1.05%	-0.32%	1.18%	0.06%
Balanced Strategic Asset Allocation	3.98%	0.06%	-3.00%	-3.92%	3.18%	2.65%	3.37%	5.85%	7.94%	16.07%	-4.26%	9.94%
Sanlam Index Growth	4.55%	0.31%	-3.97%	-5.21%	2.91%	1.45%	3.09%	5.94%	8.20%	17.65%	-5.91%	11.80%
IA Flexible Investment	3.88%	-0.79%	-4.10%	-5.82%	1.45%	0.52%	1.96%	4.13%	6.47%	15.64%	-6.64%	11.08%
Inception date: 31st December 2011	0.67%	1.10%	0.13%	0.62%	1.46%	0.93%	1.13%	1.81%	1.73%	2.01%	0.74%	0.72%
Growth Strategic Asset Allocation	4.70%	-0.04%	-4.71%	-5.89%	2.00%	1.65%	3.08%	5.94%	8.45%	18.00%	-5.36%	11.53%
Sanlam Index Adventurous	5.10%	0.72%	-4.90%	-6.31%	2.66%	1.05%	3.28%	6.38%	9.02%	19.54%	-6.65%	13.81%
IA Global	6.03%	4.62%	-0.85%	-1.86%	7.41%	4.96%	6.18%	8.63%	9.88%	22.01%	-5.71%	13.87%
Inception date: 31st December 2011	-0.93%	-3.89%	-4.05%	-4.45%	-4.76%	-3.91%	-2.90%	-2.24%	-0.86%	-2.46%	-0.94%	-0.06%
Adventurous Strategic Asset Allocation	5.33%	-0.15%	-6.24%	-7.65%	0.90%	0.77%	2.94%	6.11%	9.06%	19.71%	-6.18%	13.41%

Model Benchmark	May-20	3 Month	6 Month	Year to date	One Year	Two Year**	Three Year**	Five Year**	Since Inception**	2019	2018	2017
INCOME FUND												
Sanlam Accel Income Fund	2.23%	-4.51%	-8.16%	-9.51%	-2.69%	-1.13%	0.24%	3.25%	4.50%	13.83%	-4.97%	9.93%
Sanlam Accel Green Benchmark"	2.63%	-0.13%	-2.08%	-2.90%	3.58%	2.99%	3.32%	5.50%	6.09%	14.23%	-3.52%	8.39%
Inception date: 8th March 2013	-0.40%	-4.38%	-6.08%	-6.61%	-6.27%	-4.13%	-3.08%	-2.25%	-1.59%	-0.40%	-1.45%	1.54%
S R I												
Sanlam SRI Conservative	1.91%	0.35%	1.48%	1.31%	6.15%	4.02%	3.38%	4.29%	5.37%	12.49%	-5.05%	7.08%
IA Mixed Investments 0-35% Shares	2.10%	-1.31%	-1.68%	-2.29%	1.62%	1.50%	1.33%	2.59%	3.83%	8.80%	-3.41%	4.97%
Inception date: 2nd July 2012	-0.18%	1.67%	3.15%	3.60%	4.53%	2.51%	2.05%	1.70%	1.54%	3.69%	-1.63%	2.12%
Conservative Strategic Asset Allocation	2.16%	0.19%	1.28%	1.10%	5.97%	5.10%	4.22%	5.72%	6.36%	11.14%	-1.12%	6.47%
Sanlam SRI Cautious	3.29%	1.57%	1.13%	0.32%	7.15%	4.04%	3.91%	5.36%	7.38%	15.03%	-5.27%	9.35%
IA Mixed Investments 20-60% Shares	2.73%	-2.36%	-4.37%	-5.55%	0.01%	0.28%	0.89%	2.74%	4.86%	12.08%	-5.11%	7.19%
Inception date: 2nd July 2012	0.56%	3.93%	5.50%	5.87%	7.15%	3.76%	3.01%	2.62%	2.52%	2.95%	-0.16%	2.16%
Cautious Strategic Asset Allocation	3.31%	0.13%	-1.41%	-2.06%	4.25%	3.55%	3.57%	5.68%	7.27%	14.25%	-3.28%	8.33%
Sanlam SRI Balanced	4.04%	2.30%	1.03%	-0.07%	7.81%	4.28%	4.37%	5.68%	8.08%	17.32%	-6.08%	11.72%
IA Mixed Investments 40-85% Shares	3.65%	-0.80%	-4.26%	-5.68%	1.39%	0.94%	2.08%	4.15%	6.88%	15.94%	-6.07%	10.05%
Inception date: 2nd July 2012	0.39%	3.10%	5.29%	5.61%	6.42%	3.33%	2.29%	1.53%	1.20%	1.38%	-0.01%	1.67%
Balanced Strategic Asset Allocation	3.98%	0.06%	-3.00%	-3.92%	3.18%	2.65%	3.37%	5.85%	7.86%	16.07%	-4.26%	9.94%

Source: data from Bloomberg, Lipper, Morningstar, FE Trustnet and Sanlam Investments. Data is to end of April 2020 and performance numbers are presented net of underlying manager fees, and gross of advisor, DFM and platform fees. Performance numbers over 1 year are annualized. Data from FE is net of DFM fees.



Commentary on performance

"Only when the tide goes out can you see who has been swimming naked"

– Warren Buffett.

May was a more mixed month performance wise. April numbers had been somewhat flattered by timing differences. Most (but not all) of underlying funds price at mid-day, while the main indices in the Strategic Asset Allocation had a weak afternoon on 30th April. Holdings capture that weakness in these figures. Also capturing that weakness this month and so more comparable from a 'timing-snapshot' perspective are the IA sectors. Against those, our Active models continued to outperform. Index models performed less well, as we would expect. Active fund managers often struggle in sharp selloffs. They tend to own better companies, and often those better companies are more widely held. In selloffs they get hit, as people sell what they own. Good active managers seize opportunities and add value as investors flock back in, again, usually to the better companies, at least initially. Our Active Adventurous out-performed Index Adventurous, with similar asset weights, by circa 1%. Underlining the point, the higher quality holdings in the SRI Models, meant they performed even better. SRI Balanced adding 35bp vs Active Balanced, in May.

Later in the month as the rally gathered momentum, there was rotation into Value. At that stage Active began to perform better.

Income

Here in the UK many investors rely on the income generated by dividends, especially in retirement. In some ways this is misguided. Arguably, Total Return should be the focus, with clients 'top-slicing' capital to meet their income needs. Yet we run risk managed portfolios, that focus primarily on generating returns in a risk appropriate way, to ensure a balance between optimised returns and comfort, or simply 'don't take risks that you don't need to.'

One of those risk considerations is stability and emotional comfort from a reliable income stream. This helps planning and moderates the need for excessive top slicing of capital at market lows, in exchange for giving away some upside. Total Return becomes less important but should not be ignored. Balance!

To meet this income demand, in the UK a strong dividend paying culture has existed for many years, with businesses understanding the desire of a large part of their shareholder base. However, given the current unprecedented backdrop, that culture is being severely challenged. How challenged, only time will tell for sure. A recession is on us, but exactly how severe and how long it lasts, we can still only speculate.

To provide some insight as to what the impact on dividends may be, we have asked the top managers from The Income Study for their view, no matter how speculative, given the backdrop.

From the start of the year till the beginning of April, cumulative UK equity dividend cuts amounted to around 30%. More have followed. One of our managers suggested a total 40% reduction was likely, another proposed 50%. These may yet prove optimistic, especially if 'shut-down' measures are extended due to any 'second-wave'.

Financials

Bank pay-outs have accounted for a sizeable component of UK dividends, again in recent years. As 2020 began HSBC was running with a yield around 6 ½%/7%, and Lloyds Bank's was just below 6%. They have been told to suspend all distributions, by the government. This would seem good news as it protects their balance sheets and the money will simply accrue to their book value, but it does not help those relying on the income. Insurance companies may well follow, though by mid-May only Aviva had cut.

As soon as the crisis is over financial sector distributions may return, potentially at reduced, or even elevated levels (special dividends if politically tenable?) if the slowdown is shorter.

Energy Companies

The oil majors, Shell and BP, have also been reliable for income, but with the oil price below breakeven for many producers, they may also decide to reduce distributions. Shell has, BP so far has preferred to use its balance sheet, and cheap borrowing to support its payout. There may be knock on consequences to the wider UK energy sector, with oil services business, more mid-cap in nature, seeing the effects of lower capital expenditure. The outcome for dividends in this sector may well depend on ongoing negotiations between OPEC and Russia as much as on Covid-19.

Bailouts

It also seems likely that to that any business requiring government support will need to suspend payments, and possibly for some time. How deeply this will run, time will tell. Will those that simply furloughed staff be asked to build more of a 'rainy day kitty' in future?

Cuts and lower share prices

For new and future investors to the sector, these cuts may be no bad thing in the medium to long term.

Corporate balance sheets may well be more robust where dividend cuts have been pre-emptive and cautionary. Lower share prices might mean the 'yield' (dividend divided by share price times 100) falls a lot less (than the dividend), in some cases maybe even rising - BP currently has an 10.5% yield, according to Bloomberg (15th June)! But the total income paid out by companies will be lower hurting those already invested and looking forward to receiving their next distribution.

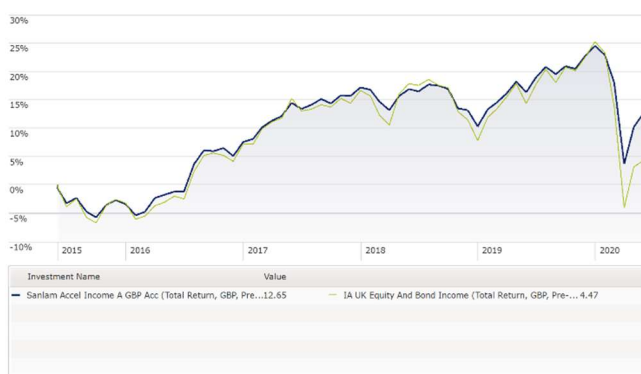
So, what can investors do?

It is difficult to predict where will be safe to hide, especially if the Covid-19 impact is drawn-out. Gilts and cash are likely to be the safest, but they do not pay anything worthwhile in terms of yield. So, we would suggest considering one of our diversified portfolios for those who require a more sustained income.

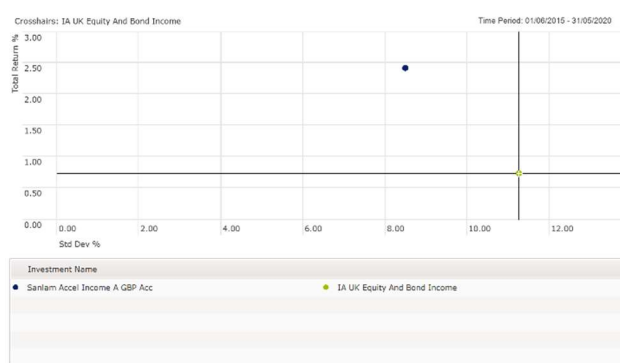
There are several options here:

Sanlam Accel Income Fund

If looking for a unitised vehicle there is the Sanlam Accel Income fund. The yield has been around 4%, consistently since inception, and the fund has only around 30% in UK equities. It is of course not immune to downside, but with 45% in bonds, of which at least 70% is investment grade, its income should be more protected. This has a similar risk to our Cautious models.



Source: Morningstar Direct



Source: Morningstar Direct

Income Models

Alternatively, we have a range of Income models available via Sanlam nominees. We have four risk grades Conservative, Defensive, Cautious, and Balanced. The framework mirrors that used in our main models, except that funds are selected for their income characteristics.

Option writing overlays

One area of appeal in all these solutions are the 'enhanced income' strategies. These funds use 'option writing' on their underlying holdings to deliver additional income. With underlying market volatility up, they have been able to generate higher income from their 'call writing' and been able to also 'write their calls' further 'out of the money', creating more upside potential till they 'put' their stock.

Simply, by having a stock price target and being willing, in advance, to sell (some or all) that stock at the target they can generate additional income. In extended bull runs we would expect these strategies to lag, as their 'valuation discipline' cuts positions on the early side. But the managed top slicing of their portfolios with a professional eye, can bring a more reliable income stream. The comfort this brings is worth something, and the strategy more appealing given the uncertain backdrop, especially if more volatility is to follow.

We of course blend the approach with other opportunities (e.g. higher corporate bond yields) to diversify the risks. But, the point remains, despite the more difficult backdrop, income seekers should not automatically throw in the towel given the dividend news.



The Recent Rebalance and MF Trades

In line with the more positive outlook, and the Asset Allocation team's 'neutral' stance we added a little to risk in the scheduled mid-May platform rebalances, as detailed last month.

The MF models had been able to up-risk earlier, so recent trades were more about 'tweaking' the portfolios, and bringing risk back down, a little, booking some of the gains.

We bought in the Sanlam Hybrid Capital Fund, to benefit from the higher yield currently available from credit focused bonds. Moreover, many of the issuers it buys are financials whose position has been supported by not paying out dividends – a way for us to benefit from the weakness in UK equity income payouts!

We reduced some of our other credit funds – Amundi and Hermes global high yield funds and Ninety-One (Investec) Tactical Credit to finance some of this – we did not want to 'up-risk' further. We also reduced Man GLG Strategic Bond Fund, which has been disappointing through the crisis, primarily due to its credit calls, to help finance the Sanlam Hybrid Capital purchase.

Offsetting the reduction in Man GLG we brought Allianz Strategic Bond Fund which focuses on avoiding being overly correlated to credit and equities.

Finally, Martin Walker, PM of the Invesco UK Focus has been given Mark Barnett's job as Head of UK Equity at Invesco. This responsibility proved too much for Mark Barnett who has now left Invesco. While Martin walker has fewer other calls on his time, than Mark Barnett did, we feel this cannot help him focus on his main job for us, of running client money. So, for now, we have also reduced exposure there, and added to several, primarily, Quality managers in the US.

For financial advisers only. All investment views are presented for information only and are not a personal recommendation to buy or sell. Past performance is not a reliable indicator of future returns, investing involves risk and the value of investments, and the income from them, may fall as well as rise and are not guaranteed. Investors may not get back the original amount invested.

Sanlam is a trading name of Sanlam Private Investments (UK) Ltd (registered in England and Wales 2041819. Sanlam Wealth Planning UK Ltd, registered in England and Wales 3879955, and English Mutual Limited, registered in England and Wales 6685913. All of which are authorised and regulated by the Financial Conduct Authority. Registered Office: Monument Place, 24 Monument Street, London, EC3R 8AJ.

The information and opinion contained in this market view should not be treated as a forecast, research or advice to buy or sell any particular investment or to adopt any investment strategy. Any views expressed are based on information received from a variety of sources which we believe to be reliable, but are not guaranteed as to accuracy or completeness by Sanlam. Any expressions of opinion are subject to change without notice.

Source: Sanlam UK. Reproduction is not allowed in whole or in part without prior written agreement from Sanlam.