

# Sanlam Credit Fund

Q3 2020 | Quarterly newsletter

## Market recap

Asset prices continued their move higher during the quarter, albeit September proved to be a sobering month for performance with risk assets broadly lower. The lack of a fiscal agreement in the U.S. as well as election jitters ahead of the Presidential Election on November 3rd contributed to understandable nervousness. Similarly, a ramping up of COVID cases globally, as well as a rise in tensions between the UK Government and the European Union on the Withdrawal Agreement, gave market participants much to think about as the quarter approached its close.

The Investment Team was particularly encouraged by the performance in September with the Funds holding steady despite the raised uncertainty.

Quantitative Easing actions by the various Central Banks do continue to provide a very strong positive technical factor with the broad decline in interest rates supporting corporate bond demand from both institutional and retail investors alike.

## Fund review

The Sanlam Credit Fund ended the quarter up 1.8% in GBP, resulting in a year-to-date performance of 1.4% in GBP as at 30th September 2020.

The fund has now recovered the losses suffered early in the COVID crisis as markets have stabilized after receiving substantial support from Central Banks around the world, in the form of Monetary and Fiscal stimulus.

An important change to the fund's activities during the quarter has been the introduction to multi-currency investing. The fund is now able to invest in securities outside its base currency of GBP, opening a much larger investment universe, always ensuring that the FX risk is fully hedged. Investments in Euro's, USD and AUD have already taken place and the Investment Team is very pleased with the contribution that these assets have had to the diversification, robustness and overall performance of the fund.

The fund's attractive yield of 4% and an average rated Investment Grade credit profile, alongside an effective duration of 3%, should continue to provide an attractive shelter for the more cautious of investors, seeking to prioritize capital preservation and downside protection.

The net income produced in Q3 was £0.91, taking the 12-month net income to £3.84, comfortably in line with the BoE UK Base Rate +1-2% target.

As of 30/09/2020:

Effective duration (%) – 3.03

Yield to Worst (%) – 4.02

### Performance data

	Inception	1mth	3mth	6mth	YTD	1Yr	Since Inception
Fund (A GBP Acc)	30/08/2016	0.0%	1.8%	6.2%	1.4%	3.7%	3.8%
Sector (IA £ Strategic Bond)		0.0%	1.9%	10.0%	2.2%	3.1%	3.1%

Performance beyond one year is **annualised**

	Inception	12 months to Sep 16	12 months to Sep 17	12 months to Sep 18	12 months to Sep 19	12 months to Sep 20
Fund (A GBP Acc)	30/08/2016	-	6.2%	0.7%	5.0%	3.7%
Sector (IA £ Strategic Bond)		-	-	-0.1%	6.9%	3.1%

**Past performance is not an indicator of future performance.**

Source: Sanlam, Link, Bloomberg.

### Key facts

Fund AuM	£81.7m
Number of Holdings	52
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	GBP Flexible Bond
Dealing Deadline	12:00 (GMT)
Settlement Time	T+3
Valuation Point	23:00 (GMT)

For professional investors only

## Performance attribution

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

Positive:

Rothesay 3.375% 2026, returning 5.85% in Q3, contributing 0.25% to performance - Fitch has reaffirmed Rothesay Life Plc rating on the back of the pandemic in early July.

Provident Financial 7% 2023, returning 7.95% in Q3, contributing 0.15% to performance - the company managed to post good results in Q2 and Q3 which have been supportive for the bond. Additionally, the management has partially tendered the bond in order to reduce leverage.

Negative:

Commerzbank 5.5% 2028, returning -1.11% in Q3, contributing -0.01% to performance - added at the end of the quarter. Relative value play against EUR curve of the issuer. This bond has a great reward/risk profile in comparison to the similar EUR note.

Pension Insurance 8% 2026, returning -0.41% in Q3, contributing -0.01% to performance - while the business flows slowed down in H1, the outlook for the remainder of H2 remains solid and management has drawn an additional tranche of capital from its shareholders to support the growth.

## What to expect

The Investment Team remain cautiously constructive heading into Q4, but are fully aware of the very strong performance over the past six months, as well as some of the elevated prices on many corporate bonds currently. The Team will remain disciplined in its decision making and continue to rely even more heavily on its fundamental credit research process.

Ultimately, the financial markets' and indeed the worlds' focus will be on the U.S. Presidential Election as well as the outcome of the UK's withdrawal from the European Union. Undoubtedly these events will raise the level of volatility in financial markets, however, this will also present us with opportunity.

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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](http://www.sanlam.ie).

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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.

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