Sanlam Multi-Strategy 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

After a weak fourth quarter the bond and equity markets bounced back strongly in the first quarter of 2019. Numbers were green across the board as trade talks progressed and tightening fears receded. Against this positive backdrop the fund returned 3.65% over the quarter. All strategies contributed positively to the fund over the period, with the strongest returns coming from renewables, investment grade debt, property and high yield bonds. In this positive equity environment our hedges were the only negative contributor.

Over the quarter we recycled proceeds from bond maturities, purchased some equity index call options and refreshed the downside hedges after strong market moves.

Performance data

	Inception Date	QTR	YTD	1yr	3yrs	5yrs	Since Inception
B GBP Accumulation	31/01/13	3.6	3.6	5.5	5.9	3.9	3.7
A GBP Accumulation	11/11/13	3.5	3.5	4.7	5.1	0.0	2.7
B USD Accumulation	29/11/13	4.1	4.1	7.2	7.3	0.0	4.0

Performance beyond one year is annualised

12 Months to	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15
B GBP Accumulation	5.5	3.6	8.8	0.7	1.3
A GBP Accumulation	4.7	2.8	8.0	-0.1	0.5
B USD Accumulation	7.2	5.1	9.5	0.6	0.9

Past performance is not an indicator of future performance.

Source: Sanlam, Morningstar and Lipper as at 31/03/2019.

Key facts

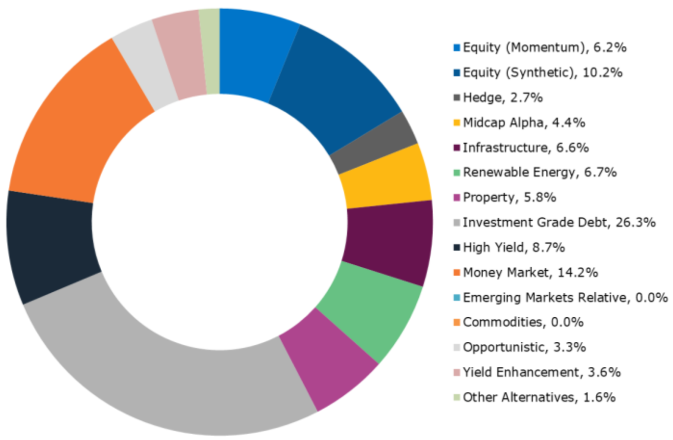
Fund AuM	£181.3
Distribution Yield*	3%
Target - Short Term	+Returns over 3 yrs
Target - Long Term	CPI+4% over 5yrs
Fund Manager	Mike Pinggera
Fund Launch Date	31 January 2013
Domicile	Ireland
Base Currency	Sterling
Fund Type	OEIC, UCITS V
IA Sector	Absolute Return
Morningstar Category	Alt - Multistrategy
Dealing Deadline	11:00 (GMT)
Settlement Time	T+3
Valuation Point	Midday (GMT)
Distribution	Monthly

*Distribution yield is the amount received by an investor, and is the sum of distributions paid over the past 12 months, based on the frequency and divided by the last price

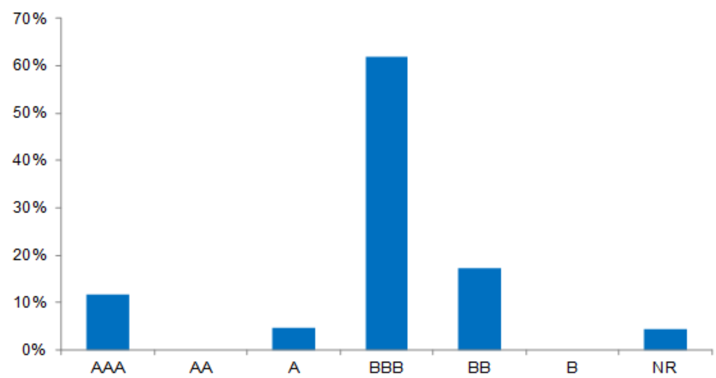
Performance attribution

	Q1 2019	YTD
Equity (momentum)	0.23%	0.23%
Hedge	-0.85%	-0.85%
Global Equity (Synthetic)	0.30%	0.30%
Infrastructure	0.40%	0.40%
Renewable Energy	0.65%	0.65%
Property	0.64%	0.64%
Other Alternatives	0.02%	0.02%
Investment Grade Debt	0.65%	0.65%
Commodities	0.00%	0.00%
High Yield	0.41%	0.41%
Midcap Alpha	0.38%	0.38%
Emerging Markets Relative	0.00%	0.00%
Opportunistic	0.37%	0.37%
Money Market	0.12%	0.12%
Yield Enhancement	-0.05%	-0.05%
Cash (incl. expenses)	0.00%	0.00%
Total	3.29%	3.29%
B GBP NAV Return	3.64%	3.64%
Differential	0.35%	0.35%

Fund allocation



Bond credit quality

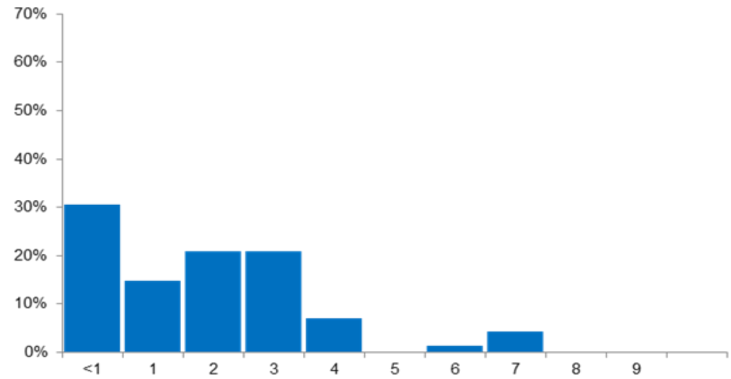


Top 10 holdings

3.54% Imperial Brands Financial Plc 7.75 06/24/19
3.31% European Investment Bank F/R 02/17/20
3.31% Santander UK Plc F/R 08/07/2019
3.26% III Group Plc 6.7/8 03/09/23
3.16% BHP Billiton Finance Ltd F/R 22/10/2077
3.10% Glencore Canada Fin Corp 7 3/8 05/27/20
3.06% Greencoat UK Wind Plc
3.02% J Sainsbury Plc F/R 30/07/2049
3.02% London Stock Exchange Plc 4 3/4 11/02/21
2.98% Intercontinantal Hotels Plc 3.875 11/28/22

Source: Sanlam as at 31/03/2019.

Bond duration



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.

With all of this in mind we continue to position the portfolio with the profile of a diversified convertible and favour option based equity exposure (rather than pure directional investments) alongside income producing real assets and short duration bonds.

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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 can invest in derivatives. Derivatives are used to protect against fluctuations in currencies, credit risk and interests rates or for investment 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's expenses are charged to capital. This has the effect of increasing dividends while constraining capital appreciation.
Part of the fund is invested in bonds. 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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