

Sanlam Real Assets Fund

Q2 2019 | Quarterly newsletter

Market recap

During April, equity markets climbed despite lower global growth forecasts. The month saw the S&P Index hit an all-time high and the FTSE 100 a 6-month high. The FOMC held US rates despite pressure from the president for a rate cut. In the UK, the Brexit deadlock resumed and cross-party talks seeking to resolve differences appeared futile. Despite this, sterling still ended the month near its 12-month high against the euro.

The Brexit fiasco continued to dominate headlines in May as the PM announced her resignation after the EU election results reflected a collapse in support for the two main UK parties. Subsequently, sterling depreciated against both the dollar and the euro as the outlook for Britain became even more uncertain. This fed through to the bond market with the UK 10 year gilt yield ending the month at 0.89%. Over in the US, Trump took an aggressive stance by announcing new trade tariffs on Chinese goods and threatened to do the same to Mexico if they didn't comply with immigration proposals. This had a negative read-across for markets with all major equity indices down over the month.

In June, the Fed adopted a dovish stance on interest rates and the expectation is now that rates will be cut in the near future. In Europe, politics remained the focus with the Tory leadership contest and speculation as to the outcome of the European council elections dividing opinion. The perception of easing monetary conditions sent both equity and bond markets higher over the month, reflecting mixed market views.

Fund review

The real asset fund ended the period with 90 day volatility of 4.06% vs the MSCI world at 9.58%. During the sell-off in May the fund again highlighted its defensive characteristics when markets got spooked by the re-emergence of US-imposed trade tariffs and its possible effects on global growth. Positive contributions came from infrastructure, renewables and other alternatives. Property detracted from performance over the quarter.

The real assets fund diversified further over the period with two new holdings. The first is a global infrastructure company that holds a broad portfolio of roads, bridges, healthcare, justice and education assets, all receiving 100% availability-based contractual revenue. The second addition to the portfolio is a European-focused renewables business, owning and operating pan European hydro, solar and wind assets.

Over the second quarter, the holdings in the fund raised over £1bn in fresh capital to expand portfolios and to capitalise on attractive opportunities. Almost 60% of this was raised in the renewables sector, which continued to garner attention in the media, in politics and the investment community. The vast majority of capital fundraising activity conducted by the portfolio constituents were oversubscribed, re-affirming the strong appetite for this asset class in the current environment.

Outlook

The first half of the year produced positive returns in most asset classes, but not without a significant dose of volatility. The mixed messages from equity and bond markets are unlikely to make the second half any easier. Locally, the leadership election for the next UK prime minister will be a key factor in setting the tone for the withdrawal process from Europe later this year and sterling should continue to be volatile. The omission of key words from the FOMC press release and the news that the ECB is priming the QE pumps once again in the face of slowing global growth concerns has the market pricing in a more accommodative environment over the short term. Whether these steps are enough to prop up this aging rally or cause a rush for the exits remains to be seen.

Taking this environment into consideration, the fund continues to hold and pursue investments that fit our theme of "pillars of a functioning economy" with long-term, stable and predictable cash generative assets with defensive characteristics. The fund has a yield of 4.0% with a good degree of inflation linkage and a portfolio beta of 0.28.

Key facts

Fund AuM	£141.5m
Strategy AuM	£141.5m
Number of Holdings	29
Portfolio Yield*	4.0%
Fund Manager	Mike Pinggera
Benchmark	CPI+4%
Fund Launch Date	21 August 2018
Domicile	Ireland
Base Currency	Sterling
Fund Type	OEIC, UCITS
IA Sector	IA Specialist
Morningstar Category	Alt - Other
Dealing Deadline	11:00 (GMT)
Settlement Time	T+3
Valuation Point	Midday (GMT)
Distribution	Monthly

For professional investors only

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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.

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