For Professional Investor Use Only

Real Asset Investments in a Recessionary Environment

Thursday 16th November 2023

Mike Pinggera
Head of Multi-Strategy

With the interest rate cycle appearing to peak and light visible at the end of the tunnel, the risk that central banks have gone too far and a recession ensues now becomes a factor to consider. Transition periods can be challenging for investors and understanding how real asset investments, in particular our focus areas of infrastructure, renewable energy, and specialist property, have historically fared during economic contractions can provide helpful insights for investors navigating the complexities of the market. From the outset of the Sanlam Real Assets Fund, our companies have been selected for their underlying resilience as well as their potential for long-term stable returns. While recognising the recent pressure on listed share prices (weakness not seen in private markets), these fundamental characteristics mean that these assets should not be overlooked as reliable havens during periods of financial uncertainty.

Infrastructure

Infrastructure investments (36% portfolio weight), characterized by the development and ownership of assets providing essential public services, have often demonstrated resilience during economic downturns. Governments around the world recognize the role of infrastructure in stimulating economic growth and creating jobs, leading to increased investment in transportation, energy, and telecommunications networks. While some infrastructure projects may face delays or funding constraints during a recession, the overarching importance of these assets in supporting societal needs provides a buffer against economic volatility.

Renewable

Renewable energy investments (32% portfolio weight), while promising for their sustainability and long-term environmental benefits, have faced varying degrees of impact during prior economic contractions. Historically, government support through subsidies and tax incentives has bolstered the development of renewable energy projects. And while there are near-term question marks regarding the financial viability of certain ventures, the stability of government policies, and the availability and cost of financing, it should be noted that corporate pull (rather than government push) is an increasingly supportive factor. With the global demand for sustainable energy sources and the increasing awareness of climate change, renewable energy investments are positioned as a significant component of the transition toward a greener economy, encouraging long-term investor confidence.

Specialist Property

In the realm of specialist property investments (22% portfolio weight), the performance of housing, student accommodation, and logistics facilities during recessions has been influenced by the specific dynamics of each sector. Housing, being a fundamental necessity, often maintains a level of stability during economic contractions as the demand for affordable housing remains relatively constant. However, segments of the housing market tied to luxury properties (where we are not exposed) may experience a decline in demand, reflecting changes in consumer spending patterns and risk aversion. Student accommodation has historically been closely linked to the ebb and flow of enrolment in educational institutions, but at present demand is outstripping supply and the long-term demand for education continues to underpin the stability of this sector. Finally, logistics facilities, a crucial component of the evolving e-commerce landscape, have exhibited resilience during economic downturns as the growing demand for efficient supply chain management and last-mile delivery services sustains the sector's growth trajectory.

Analysing the cyclicality and inflation linkage of revenues in real asset investments is critical for understanding their performance dynamics during different economic phases. While these investments may demonstrate a lower degree of underlying cyclicality, their share price performance is often influenced by short-term economic trends and central bank policy. They also offer a hedge against inflationary pressures with many infrastructure projects and specialist property investments incorporating mechanisms such as inflation-linked tariffs and long-term lease agreements that adjust to changes in the overall price level, thereby protecting investors from the erosion of real returns.

Window of opportunity

The current interest rate cycle reaching its peak presents both opportunities and challenges, with the positives of the end of the tightening cycle potentially being offset by economies moving into recession. Listed real asset investments have shown an underlying resilience during the tightening cycle but share prices have not been immune from the impact of rising rates which has led dividend yields and the discount rates used in asset valuations to rise. The less cyclical nature of real asset investments means they are well positioned in the event of a recession and can be expected to be a significant beneficiary of lower interest rates should central banks adjust course. This environment will of course also be good for high-quality bonds, but were inflation to remain elevated at the same time (the dreaded stagflation), real assets would provide a better shelter for investors.

In the past week, we have seen news of Goldman Sachs raising $4bn for a new infrastructure-focused private equity fund, proclaiming in their announcement: “Investors are pouring money into everything from toll roads to power networks as they seek out assets that can deliver steady returns and guard against inflation”[1]. Not to be outdone, Blackstone have invested $5.4bn in infrastructure assets in 2023 to date[2]. It is clear that infrastructure, renewable energy, and specialist property investments, although influenced by the broader economic climate, continue to be sought after for their potential to deliver consistent returns and mitigate the risks associated with market fluctuations. The discounts and depressed share prices of listed companies looks to us to be a great window of opportunity to gain exposure to what we, along with Goldman Sachs, Blackstone, and many others, think should be a core component of every portfolio.

[1] Source: Goldman Sachs: 23/10/2023

[2] IPE Real Assets: 25/10/2023

Important Information

The Fund has holdings which are denominated in currencies other than sterling and may be affected by movements in exchange rates. The Fund may invest in derivatives to reduce risk or cost and/or generate extra income or growth. 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 bonds. Investment in bonds and other debt instruments will be impacted by factors such as changes in interest rates and risk of default by the issuer.

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.co.uk. A full summary of investor rights can also be found online at:

https://www.sanlam.co.za/ireland/Documents/SAMI%20Shareholder%20 Engagement%20Policy.pdf Documents are provided in English.

This document is marketing material. Issued and approved by Sanlam Investments which is authorised and regulated by the Financial Conduct Authority. Sanlam Investments is the trading name for Sanlam Investments UK Limited (FRN 459237), having its registered office at 24 Monument Street, London, EC3R 8AJ. The UCITS Management Company has the right to terminate the arrangements made for the marketing of funds in accordance with the UCITS Directive.

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 as Investment Manager to this fund.

This document is provided to give an indication of the investment and does not constitute an offer/invitation to sell or buy any securities in any fund managed by us nor a solicitation to purchase securities in any company or investment product. It does not form part of any contract for the sale or purchase of any investment. The information contained in this document is for guidance only and does not constitute financial advice.

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.

Please note that all Sanlam Funds carry some degree of risks which may have an adverse effect on the future value of your investment. Any offering is made only pursuant to the relevant offering document, together with the current financial statements of the relevant fund, and the relevant subscription/application forms, all of which must be read in their entirety together with the Sanlam Universal Funds plc prospectus, the Fund supplement and the KIID. All these documents explain different types of specific risks associated with the investment portfolio of each of our products and are available free of charge from the Manager or at www.sanlam.ie. No offer to purchase securities will be made or accepted prior to receipt by the offeree of these documents, and the completion of all appropriate documentation. Use or rely on this information at your own risk. Independent professional financial advice should always be sought before making an investment decision as not all investments are suitable for all investors.

This document contains information intended only for the person to whom it is addressed or presented (Investment Professionals, defined as Eligible Counterparties or Professional Clients), and is intended for evaluation purposes, with no licence to use the content or materials within. It must not be distributed to general public, or relied upon by Retail Investors.

The opinions are those of the author at the time of publication and are subject to change, without notice, at any time due to changes in market or economic conditions. Whilst care has been taken in compiling the content of this document, neither Sanlam nor any other person makes any guarantee, representation or warranty, express or implied as to its accuracy, completeness or fairness of the information and opinions contained in this document, which has been prepared in good faith, and to the fullest extent permissible under UK law. Some parts/sections of this document may been compiled from external sources. Whilst these sources are believed to be reliable, the information has not been independently verified and is subject to material amendment, revision and updating, therefore no representation is made as to its accuracy or completeness. No reliance may be placed for any purpose whatsoever on the information, representations or opinions contained in this document nor shall it or any part of it form the basis of or act as an inducement to enter into any contract for any securities, and to the fullest extent permissible under UK law no liability is accepted or any such information, representations or opinions. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

Statements in this document that reflect projections or expectations of future financial or economic performance of a strategy, or of markets in general, and statements of any Sanlam strategies' plans and objectives for future operations are forward-looking statements. Actual results or events may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statement. Important factors that could result in such differences, in addition to the other factors noted with forward-looking statements, include general economic conditions such as inflation, recession and interest rates, political or business conditions or in the tax or regulatory framework in the UK or other relevant jurisdictions, any of which could cause actual results to vary materially from the future results implied in such forward-looking statements. No assurance can be given as to the future results that will be achieved. All of the information herein should be treated as confidential material with no less care than that afforded to the addressee's own confidential material of the most sensitive nature.

Sanlam funds mentioned in this document are only available for sale in certain jurisdictions. For the avoidance of doubt, this document is not intended to promote these Funds to any person in any jurisdiction where such promotion is not permitted under applicable laws and regulations. Potential investors should inform themselves of the applicable laws and regulations of the countries of their citizenship, residence or domicile and which might be relevant to any type of transaction in shares/units of our Funds. By accepting the terms of this disclaimer, you expressly acknowledge that you are, as the case may be, an investor who is legally or otherwise duly authorised to seek information about our Funds.

Deemed authorised and regulated by the Financial Conduct Authority. The nature and extent of consumer protections may differ from those for firms based in the UK. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.

24 Monument Place
London, EC3R 8AJ
T+44 (0)20 3116 4000
www.sanlam.co.uk