

Sanlam Centre Active U.S. Treasury Fund

A core bond fund alternative for investors who may think the only option to achieve higher returns is buying riskier assets

A nontraditional U.S. Treasury securities strategy with core attributes designed to manage interest rate risk, contribute to investors' wealth accumulation and current income, and provide portfolio diversification when most needed.

> Investment **objective**

The Fund's primary investment objective is to maximize investor's total return through capital appreciation in periods of declining interest rates, through avoidance of price depreciation during periods of rising interest rates, and through current income by roughly matching over time the maturity structure of the U.S. Treasury market.



> The Fund's role – a **bond strategy** with core attributes

Over time the Fund is intended to provide the same yield as the U.S. government bond market, to offer diversification benefits relative to other fixed income management approaches as it utilizes U.S. Treasury securities, exchange-traded futures on bond indices or U.S. Treasury notes and bonds, and cash only, and to generate competitive performance through adjusting the portfolio's interest rate exposure (duration).



The Fund may be viewed as a "cash management plus" investment choice for investors seeking quality of U.S. Treasuries and Dollar exposure, yield, and with tactical, pragmatic, flexibility to hedge duration/interest rate exposure in anticipated rising rate/falling price environments.

Furthermore, it can readily accommodate both systematic and unforeseen cash needs given the liquidity of the Treasury market.



> Key Points

1. Investors sometimes argue that rate risk does not pose a problem if bonds are simply held to maturity. This reasoning is dangerous from three perspectives:

- It assumes that bonds will not need to be sold to raise cash to meet unforeseen needs;
- It assumes that the bond will mature - no defaults; and
- It ignores the potential benefit to wealth accumulation (an opportunity cost or risk) that avoiding the loss - selling the bonds and buying them back at a lower price - provides.



2. Given the current low (from a historical perspective) level of interest rates, investors seeking yield may be tempted to extend maturities and/or reduce the quality of their bond holdings. In other words, chasing higher yields may prove risky. Extending maturity increases the exposure to interest rate risk - a loss of value if rates increase. Also, rate risk exists even if the Federal Reserve keeps its Federal Fund's Target Rate at its current level for a while longer. For, while the Fed can set the target level for the Federal Fund's Rate, it cannot as readily control the demand for credit or the inflation concerns of investors - both key factors in determining yields on longer maturity fixed income securities.

Reducing credit quality has proven risky historically as it subjects the investor to earnings risk (increasing yields relative to comparable maturity U.S. Treasury securities) in the event economic growth weakens.

3. Finally, U.S. Treasury securities can provide better overall portfolio diversification than corporate bonds. Corporate bonds and, especially high-yield corporate bonds, have company earnings (default) risk. As a result, they tend to lose value at the same time that equities do. Treasury bonds tend to appreciate in price as growth weakens and, hence, help preserve overall portfolio value.

In short, we believe U.S. Treasury securities offer the attributes an investor should seek with their fixed income allocation - no credit risk and diversification (low correlation with equities). Actively managing the interest rate risk of the portfolio has the potential to add significant value given the typical variation in interest rates during the business cycle and, in particular, given the current low level of interest rates.

> Experience

While the Sanlam Centre Active U.S. Treasury Fund was launched in January 2017, the investment discipline underlying the Fund's management approach has been in evolution since the early 1970s and utilized explicitly in asset management since the early 1980s. While the conceptual framework, grounded in the economics of interest rate behavior over the business cycle has not changed, research over the years has identified better measures of the underlying fundamentals - real growth and inflation concerns that are the primary drivers of the discipline's fundamental rate outlook - the basis for the portfolio's duration targets. Additional research has also led us to improved technical factors - for use as a proxy for investor psychology - a secondary contributor to the rate outlook.





> Fund Manager

T. Kirkham (Kirk) Barneby is the portfolio manager of the Sanlam Centre Active U.S. Treasury Fund. Mr. Barneby serves as Investment Director, Active Fixed Income Strategy of the Investment Manager, Centre Asset Management, LLC.



Prior to joining the Investment Manager in 2014, Mr. Barneby served as Senior Managing Director and Portfolio Manager at Hudson Canyon Investment Counselors, LLC, where he was responsible for managing private account clients in the Active Interest Rate Management strategy. Prior to that, Mr. Barneby held the title of Chief Strategist & Portfolio Manager, Taxable Fixed Income, at American Independence Financial Services.

Prior to AIFS, Mr. Barneby was a Managing Member of Old Iron Hill Capital Management, LLC employing quantitatively-oriented fixed income and multi-strategy investment approaches. Previously, he headed an investment group at UBS in New York that managed equity and bond portfolios with roughly \$7 billion in assets. Mr. Barneby is a graduate of Southwest Missouri State College - now Missouri State University - with a Bachelor of Science Degree in Mathematics and Economics. Subsequently, he completed all course and exam requirements for a Doctorate in Economics at Oklahoma State University. He is a National Science, NDEA and Woodrow Wilson Fellow.

> Our Funds

Each series of Sanlam Centre Funds is a fundamentally-driven, actively managed Fund in core investment strategies with differentiation and using specialist talent. We offer a select series of funds to choose from, each available in investor and institutional share classes.

Our aim is to deliver strong, long-term performance results for investors through an exceptional focus on producing returns and managing risk and downside volatility in a select number of investment strategies. We want investors to associate Sanlam Centre Funds with high conviction, differentiated fund strategies that may not be available elsewhere and are tactical, pragmatic, and opportunistic.



Each investment strategy aims to capitalize on defined market opportunities using talented and experienced Portfolio Managers with consistent and repeatable investment processes who aim to achieve true differentiated returns. Our Portfolio Managers remain focused on fundamentally-driven investment approaches within truly active, high conviction, disciplined and research intensive processes. We place service excellence at the core of everything that we do and are committed to providing useful information on all of the Funds.

Important disclosures

This sales aid was designed to provide a brief description of the features of Sanlam Centre Active U.S. Treasury Fund. It does not constitute an offer or solicitation to anyone. It is presented for information purposes only and is not intended for public distribution. The Sanlam Centre Active U.S. Treasury Fund is not available in the United States or to citizens or residents of the United States.

Investments in the Sanlam Centre Active U.S. Treasury Fund are subject to market risks. Investments can go down as well as up as a result of changes in the value of the investments. There is no assurance or guarantee of capital or performance. Investors may lose money including possible loss of capital. Past performance is not necessarily a guide to future performance. Sanlam does not make any representations that products or services described or referenced herein are suitable or appropriate for an investor. Many of the products and services described or referenced herein involve significant risks, and an investor should not make any decision or enter into any transaction unless the investor has fully understood all such risks and has independently determined that such decisions or transactions are appropriate for the investor. Any discussion of risks contained herein with respect to any product or service should not be considered to be a disclosure of all risks or a complete discussion of the risks involved. Investors must make their own independent decisions or seek advice from their financial adviser regarding the suitability and risks of any strategies or financial instruments mentioned herein.

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