

Santander Atlas Income Portfolio

Income update - August 2021



The Santander Atlas Income Portfolio is designed to deliver a target level income with the potential for capital growth, whilst operating within a defined volatility range, providing a monthly smoothed income to help meet the expectations of investors. The fund aims to produce a target income of 4% (not guaranteed) each accounting year which runs from 1 August to 31 July. The smoothed income is set by using the share price at the start of each accounting year and the expected income to arrive at the appropriate Pence Per Unit (PPU) is paid monthly, in 11 months with a final balancing payment on the 12th month, subject to regular reviews. The final balancing payment will be the income remaining in the account in the final month which could be higher or lower than the smoothed payment depending on what the fund has actually earned in income throughout the year.

Our expectation is that, due to market conditions, the Santander Atlas Income Portfolio is likely to deliver an income below its target of 4% over the next fund accounting year. This document gives an update on the market landscape, the income the fund has paid, the final balancing payment for the fund accounting year ending 31 July 2021, and what we expect to pay over the next year.

The market landscape

The Santander Atlas Income Portfolio is heavily reliant on dividend payments from the stock market, which fell significantly at the end of February last year following the start of the pandemic and the first national lockdown. Whilst the stock market started a recovery which continued after the vaccination programme and the economy began to reopen, many companies who had suspended or cancelled their dividends took time to resume these payments albeit with the vast majority remaining below the level of pre-COVID-19 times, thus reducing the opportunities to deliver income.

The Santander Atlas Income Portfolio also holds positions in Asia Pacific stocks as they tend to provide higher dividends versus their developed market counterparts in return for the additional risk in holding them. This region experienced heightened volatility in 2021 due to the Chinese Government's crackdown on technology companies, and national lockdowns causing production and export shortages, for example, semiconductors in Taiwan.

Bond markets also contribute to the income targets of these portfolios, particularly UK corporate bonds which provide lower paying yet more assured coupons, and high yield and emerging market debt which provide the higher paying yet more volatile coupons. The past year has seen bond markets in general face a challenging period given rising inflation expectations and in anticipation of this, the portfolios reduced some allocation from bonds in favour of stocks. Most affected were UK Government bonds, which have high sensitivity to interest rate changes and were not big contributors to the fund's income targets.

The global economy reopening remains a key theme for 2021. We anticipate that a seasonal decline in COVID-19 infection rates together with the ramped-up immunisation efforts would facilitate reopening, thus stimulating the global economy. In this scenario we expect stocks to perform well, particularly in the developed regions where vaccination numbers are high.

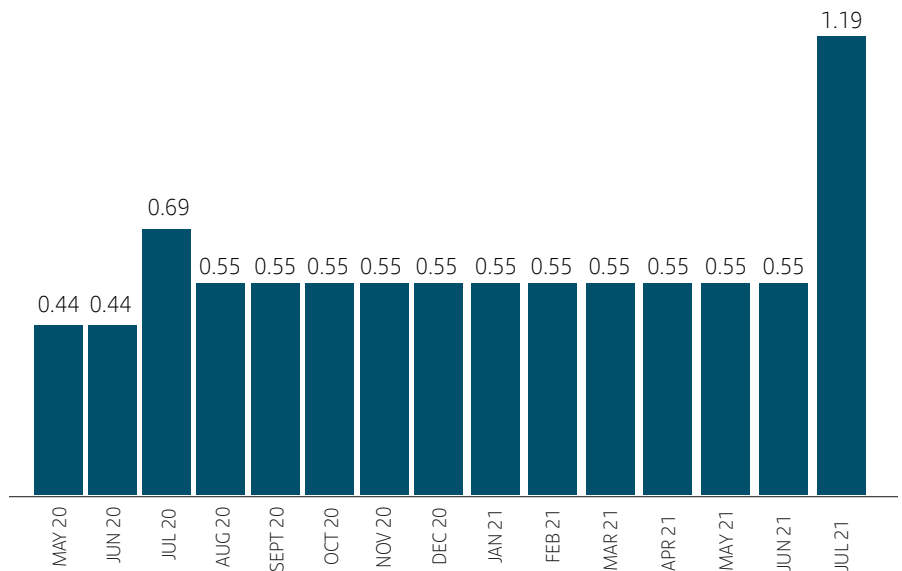
However, the combination of government policy, pent up demand over lockdowns, and post-COVID-19 optimism passing, will require the reassessment of interest rates and inflation expectations. This is what we have seen at moments in the first quarter of 2021, with the 10-Year US Treasury yield climbing 50% causing markets to fluctuate. Surveys suggest that experts predict this yield to approach 2.00% at some point in 2021, which could cause further volatility.

Income reduction 2020/21

As we communicated last year, the unprecedented events caused by the COVID-19 pandemic and the subsequent economic impacts have created enormous challenges, especially for multi-asset income solutions. Income investment portfolios are heavily reliant on dividend payments from stock markets. Many companies usually distribute a proportion of their profits back to investors in the form of a dividend. The pressures on companies during the period of the pandemic has caused a high proportion of companies to suspend or reduce paying dividends - this reduces the opportunities in the market for solutions like the Santander Atlas Income Portfolio to deliver income. Due to these conditions, we reduced expected level of income for the latter part of the 2019/2020 fund accounting year and for that which ended on 31 July 2021.

The market environment remains uncertain and although some companies have resumed dividend payments this year, many of the companies that would normally provide regular and consistent dividends have either not yet resumed these payments or have resumed them at a reduced amount. Whilst the global economic outlook may feel like it has stabilised, we are clearly still in a period where the global economy is impacted by COVID-19.

PPU Payments 2020/21: II Share Class



Please note the payments shown are based on ex-dividend dates, and therefore payments will be made one month after this.

What is the final balancing payment?

The financial year of the fund ended on 31 July 2021 and we can confirm that we are able to pay a final balancing payment (paid at the end of August) of 1.19 PPU for the II class and 2.07 PPU for the IA class. Therefore the historical income¹ for the year was 3.44% for the II share class and 3.49% for the IA share class. While this is below the target income objective, as explained, this is a reflection of the unprecedented change in market conditions and the subsequent reductions made.

The year ahead:

- **3.30% projected income (not guaranteed) for the accounting year ending 31 July 2022**
- **Monthly PPU of 0.60 for the II share class**
- **Monthly PPU of 1.00 for the IA share class**

For many investors, generating an attractive income stream in the current market environment is more challenging than at any time in recent history. Whilst the Santander Atlas Income Portfolio has the flexibility and investment tools to seek to provide a competitive level of income in varying market conditions, the highly uncertain market environment we are currently operating in means we foresee continuing challenges in the year ahead. For this reason, we are setting a projected level of income which is below the prospectus target income but which we believe is prudent and achievable in the current climate. As the projected levels of income are lower than the fund's target, we will continue to monitor closely, and as markets evolve assess whether this has any longer-term impacts on the fund.

The new financial year for the Santander Atlas Income Portfolio started on 1 August 2021. Based on the Net Asset Value (NAV) on that day, we project an annual income of 3.30% (not guaranteed). The income is the projected income we expect to receive divided by the NAV of the units on this date. Each individual investor will have their own personal income based on the price of the units on the day they invested. The table below provides an update on the fund's target income, the accounting year which has just ended, 31 July 2021, alongside showing you the projections for the new fund accounting year, which started on 1 August 2021.

Share Class	Target Income	Historic Income ¹ 2020-21	Projected Income ² 2021-22	Monthly PPU ¹ 2020-21	Balancing PPU Payment 2020-21	Projected Monthly PPU 2021-22
II	4.00%	3.44%	3.30%	0.55 PPU	1.19 PPU	0.60 PPU
IA	4.00%	3.49%	3.30%	0.88 PPU	2.07 PPU	1.00 PPU

Past performance is not a guide to future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested.

If the payments need to be adjusted up or down throughout the year as a result of receiving more or less income than expected, we will communicate this to you.

At the end of the accounting year we will confirm the balancing payment as well as provide the projected income expectation and PPU for the next 12 months.

Meeting the needs of your clients

We sincerely hope that by providing a projected level of income for the coming year, showing this in PPU terms, and by smoothing the payments over the year, we can provide clients with greater comfort and understanding when it comes to planning their finances.

If you require further information on the Santander Atlas Income Portfolio, please email us at IFAEnquiries@santanderam.com or visit our website [here](#).

¹The historic income is calculated by looking at the income the fund has paid over the last 12 months and expressing it as a percentage of the mid-market price.

²The projected income reflects the amounts that may be expected to be distributed over the next 12 months, expressed as a percentage of the mid-market price at the start of the accounting year.

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