



SUNTERA
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Suntera High Income Fund PLC

Abbreviated Annual Report
for the year ended 30 September 2021

Manager

Suntera Fund Services (IOM) Limited
Clinch's House, Lord Street, Douglas
Isle of Man, IM99 1RZ
British Isles

General Information

Directors

W J Clarke* (Chairman)

G M Easton*

R K Corkill

S W Bowden

*denotes Non-executive Director

Company Secretary

R K Corkill

Registered office:

Clinch's House, Lord Street, Douglas

Isle of Man, IM99 1RZ

British Isles

Manager and Registrar

Suntera Fund Services (IOM) Limited

Clinch's House, Lord Street, Douglas

Isle of Man, IM99 1RZ

British Isles

Investment Manager

Aberdeen Asset Managers Limited

10 Queen's Terrace

Aberdeen, AB10 1YG

British Isles

Fiduciary Custodian

Apex Financial Services (Corporate) Limited

12 Castle Street, St Helier

Jersey JE2 3RT

British Isles

Auditor

PricewaterhouseCoopers LLC

Sixty Circular Road, Douglas

Isle of Man, IM1 1SA

British Isles

Manager's Report

Introduction

As detailed in the previous section entitled 'General Information', Suntera High Income Fund PLC (the "Fund") is managed by Suntera Fund Services (IOM) Limited (the "Manager") and the investment manager is Aberdeen Asset Managers Limited (the "Investment Manager"). That section also details the Directors, the Company Secretary, the Fiduciary Custodian and the Auditor.

The Fund is an Authorised Scheme for the purposes of the Collective Investment Schemes Act 2008. The Fund is established as an open-ended investment company and is managed in the Isle of Man under the Companies Acts 1931 to 2004 and in accordance with the Authorised Collective Investment Schemes Regulations 2010 (the "Regulations"). The Fund has elected to be a type A scheme for the purpose of the Regulations. In accordance with the Regulations, the Fund complies with the Statement of Recommended Practice for Authorised Funds issued by the Investment Association in May 2014 (the "SORP"). The Fund was originally established and authorised on 3 March 1989.

Important information

The full version of the Annual Report & Audited Financial Statements for the year ended 30 September 2021 may be viewed on our website - www.suntera.com and is available for inspection at the registered office of the Fund. The website also provides daily pricing information for the Fund.

If shareholders have any questions regarding the Fund please contact our Shareholder Services Team on 01624 682224 - or by email to fund.services@suntera.com.

Investment objective, policy and strategy

The purpose of the Fund is to provide investors with a high income, before taxation, from a managed portfolio of fixed-interest securities, denominated in sterling and other currencies, with net income distributed on a quarterly basis.

Investment Manager's overview for the year ended 30 September 2021

Market review

Corporate bond returns were generally positive over the period, although UK corporate bonds fell slightly. Investment-grade debt started the period under pressure, faced with the double effect of Covid-19 and weak oil prices. However, since then, there has been a broad recovery. Moreover, the major central banks all purchased corporate bonds through their stimulus programmes.

Corporate bonds struggled slightly in October 2020 as investors sold out of riskier debt, concerned about the potential for rising defaults amid uncertainty from rising Covid-19 cases and the US election. November saw the upward trend resume on positive news flow stemming from vaccine breakthroughs and a likely Biden presidency (that later materialised). This extended into the end of 2020, driven by vaccine optimism, the Brexit trade deal agreement and US stimulus package.

Rising US Treasury yields at the beginning of 2021 affected most financial markets. However, corporate bonds managed to weather the storm somewhat. As government bond yields stabilised, this robust performance continued through August, even as the US Federal Reserve (Fed) said it would begin offloading corporate bonds bought through its pandemic support plan. But corporate bonds fell in September as the latest minutes from the Fed's rate-setting committee suggested an increasingly hawkish approach from policymakers.

Performance and activity of the Fund

Over the 12-month period, the Fund outperformed the benchmark. This was mostly due to positive security selection – particularly in banking and real estate. Meanwhile, asset allocation also contributed, as the overweighting of real estate and Tier-1 debt more-than-offset the negative contribution from the underweighting of financial services, government-related debt and water. In particular, exposure to NewRiver REIT and Hammerson (real estate), Virgin Money (lower Tier-2 and banking), Quadgas (the ultimate owner of British Gas) and Mexican government bonds boosted performance. Conversely, Channel Link Enterprises and Réseau Ferré de France (transport) and Annington (real estate) largely detracted.

Regarding activity, we initiated several trades in the insurance sector throughout the review period. Looking to recycle low-yielding assets into better-value new issues, we sold the Fund's position in the Commonwealth Bank of Australia and reinvested into Pension Insurance Corporation (as well as Verizon Communications). We purchased new issues from US-based insurer Athene and added to our position in Aviva. After the new year, we also sold out of the Australian insurer QBE, after a strong run from the bonds left it expensive, versus other insurance groups. We also started to sell down the Fund's exposure to the French insurer AXA.

Trading in the last quarter of 2020 was largely based on positive news flow related to Covid-19 vaccine trials and Joe Biden's victory in the presidential election in November. We purchased BHP Billiton in November to benefit from the cyclical upswing that was underway in most economies. We also added a position in Mexican bonds at the very long end (matures in 2114), due to our belief that the Mexican Government would have a better relationship with the incoming US administration. This paid off, as the holding was a top contributor to the Fund's performance over the 12-month period. We sold some exposure to Heathrow after a strong recovery in spreads over November. This recovery left the group looking expensive, despite the optimistic outlook for the airport sector. We also took a new issue from the industrial group Toyota. We funded December issues from sales of Scottish Hydro and Yorkshire Energy bonds. Both bonds were expensive in the Fund and had performed well. We ended the year by adjusting duration lower with a gilt sale, in anticipation of rising yields in the UK.

After the new year, we purchased new issues from BNP Paribas and Motability. In March, the Fund suffered a significant redemption from its largest shareholder RL360 Life Insurance Company Limited which necessitated the sale of approximately 50.7% of the Fund's portfolio. It should be noted that the cost of this was borne by the exiting shareholder receiving the bid price for the Fund. We bought a new issue from Banco Santander, a well-run bank that offers defensive characteristics for the Fund, given the bonds' seniority.

In May, we sold the position in DS Smith, the paper and packaging group. This was after decent performance from the group over the last couple of years left it looking rich in credit markets. We later sold our position in Quadgas. The move to reduce carbon in the home heating market in the UK over the next few decades will be very expensive, and it is not clear where that expense will ultimately lie. In the meantime, the bonds had performed well, but did not reflect the risks we saw from this transition. We also sold positions in British Land after a recovery rally in the bonds took the level well through the end of 2019 spread levels. This left little value compared with our assessment of the business. Finally, we reduced exposure to housing associations, selling Catalyst Housing after a reasonable performance from the name and as its risk profile began to rise.

Outlook*

Unsurprisingly, investment-grade credit remains far from cheap at current levels. With lower carry available and greater scope for monetary policy action and/or policy error, investment-grade markets feel more fragile than they have done for some time. Overall fundamentals remain constructive, although idiosyncratic risks have picked up due to both Covid-19 and merger and acquisition events. It appears prudent to pare back exposures in the near term, although the technical backdrop remains a pillar of support.

*Investment markets and conditions can change rapidly and as such, the views expressed should not be taken as statements of fact nor should reliance be placed on these views when making investment decisions.

Future of the Fund

Since a significant shareholder redemption in March 2021 the increased percentage of ongoing fixed costs are detracting from investment returns. The Manager, working closely with the Fund Board, Investment Manager and Fiduciary Custodian, has tried to identify new sources of investment into the Fund and explore alternative options to secure its future. On the basis the Directors of the Fund are of the opinion, that in the likely event of no viable solution being identified, the Fund would close, it is the Manager's expectation that the Fund would be closed within 12 months of these financial statements. An update will be provided to shareholders in due course.

S W Bowden

Director

Suntera Fund Services (IOM) Limited

16 December 2021

Comparative Table

Change in net asset value per share

	2021 p	2020 p	2019 p
Opening net asset value per share	57.70	57.15	53.62
Return before operating charges*	0.21	2.51	5.63
Operating charges	(0.67)	(0.56)	(0.49)
Return after operating charges*	(0.46)	1.95	5.14
Distributions on preference shares	(1.10)	(1.40)	(1.61)
Closing net asset value per share	56.14	57.70	57.15
*after direct transaction costs of	0.006	0.003	0.004

Performance

	2021	2020	2019
Return after charges	-0.80%	3.41%	9.59%

Other information

	2021	2020	2019
Closing net asset value	£ 14,365,527	£32,344,373	£33,980,283
Closing number of shares	25,586,830	56,058,278	59,455,542
Operating charges	1.15%	0.98%	0.89%
Direct transaction costs	0.022%	0.005%	0.007%

Additional comparative table disclosures required by the Authorised Collective Investment Schemes Regulations 2010:

Performance record for the year ended

	Highest share price p	Lowest share price p	Net distribution per share* p
30 September 2017	61.28	54.67	1.91
30 September 2018	56.52	53.71	1.63
30 September 2019	58.00	52.98	1.61
30 September 2020	58.63	51.39	1.40
30 September 2021	59.58	56.24	1.10

*Net distribution per share is based on average shares in issue during the year.

Net asset value record

	Net asset value of participating shares £	Shares in issue	Cancellation price per share p
30 September 2019	33,980,283	59,455,542	57.15
30 September 2020	32,344,373	56,058,278	57.70
30 September 2021	14,365,527	25,586,830	56.14

Ongoing charges figure ("OCF") for the year ended

	OCF*
30 September 2019	0.89%
30 September 2020	0.98%
30 September 2021	1.15%

*The OCF is the total expenses paid by the Fund in the year expressed as a percentage of the Fund's average net asset value.

Details of investments

	% of Fund's property 30.09.2021	% of Fund's property 30.09.2020
Government bonds	12.53	7.96
Corporate bonds	81.63	89.00
Bank balances	5.84	3.04
	<u>100.00</u>	<u>100.00</u>

A credit quality analysis is disclosed below in accordance with paragraph 3.84 of the SORP:

Credit quality analysis

	Market value at 30.09.2021 £	Market value at 30.09.2020 £
Investment grade	13,147,820	30,279,525
Non-investment grade	319,326	898,234
Total debt securities	<u>13,467,146</u>	<u>31,177,759</u>

Top five holdings

Asset description	% of Fund's property 30.09.2021	Asset description	% of Fund's property 30.09.2020
1. United Kingdom Gilt 2.75% 07/09/2024	5.93	1. United Kingdom Gilt 2.75% 07/09/2024	5.53
2. United Kingdom Gilt 0.125% 31/01/2028	2.46	2. United Kingdom Gilt 4.25% 07/12/2046	1.67
3. Western Power Distribution West Midlands 5.75% 16/04/2032	1.89	3. SNCF RESEAU 4.83% 25/03/2060	1.46
4. Welltower Inc 4.8% 20/11/2028	1.59	4. Welltower Inc 4.8% 20/11/2028	1.43
5. Barclays Plc 3% 08/05/2026	1.57	5. Barclays Plc 3% 08/05/2026	1.41

This Abbreviated Annual Report for the year ended 30 September 2021 was approved and authorised for issue by the Directors of the Fund on 16 December 2021.

R K Corkill
Director

S W Bowden
Director

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