Setanta Income Opportunities Fund – Q4 2016

Fund Description

The **Income Opportunities Fund** is an actively managed multi-asset Fund that is focussed on generating income and maintaining the real value of capital invested over the long-term.

The Portfolio Managers follow Setanta's value investment philosophy, seeking to pick stocks at a price below the managers' assessment of intrinsic value. The Fund further distils this philosophy by targeting stocks where management have both the willingness and ability to distribute meaningful dividends to shareholders.

While the Fund does not target specific regional or sector weights, the managers seek to maintain a sensible level of diversification. Risk is minimised by focusing on valuation, financial and operational risk measures and therefore the degree of downside protection, rather than focusing on measures of market volatility or beta. The Fund usually holds between 20 to 40 stocks with expected holding periods of up to 5 years. While investment in attractively valued high yield equities (overwritten with call options) will be the primary strategy employed in the Fund, the Portfolio Managers seek long-term higher yielding value opportunities in other asset classes also.

The covered option overwriting strategy employed is active and at all times maintains a focus on total return.

The Income Opportunities Fund has two investment objectives:
1 To generate income at a target rate. (Declared annually at beginning of year).
2 To grow real capital value over the long term

Portfolio Managers

Richard Doyle CFA & David Pastor CFA

Investment Principles

- We do not believe the market is efficient.
- We aim to make investments at a price below our assessment of intrinsic value.
- We make an investment in a business rather than trade securities.
- We believe risk is the possibility of permanent impairment of value.
- We make investments for the long term.
- We invest where we see value and are not afraid to be contrarian and swim against the tide.
- We don't make forecasts, we consider scenarios.
- We demand financial strength from the companies we invest in.
- We will act with integrity and communicate with our clients in a manner representative of our investment style.
- We have the humility to know we make mistakes and embrace the need to continue learning through both experience and study.

Setanta
ASSET MANAGEMENT

FUND PERFORMANCE – 31.12.16

YEARLY PERFORMANCE

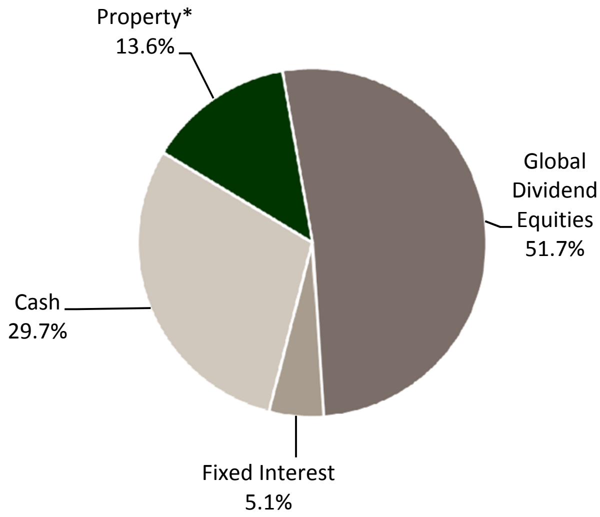
Year %	2012	2013	2014	2015	2016
Fund	11.7	14.7	8.4	10.6	9.7
Benchmark	2.2	0.8	-0.2	0.2	1.1

Performance Source: Setanta Asset Management Limited. Benchmark: European Harmonised Consumer Price Index. Fund returns are shown gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies.
* Inception as at 30.09.11

TOP 10 HOLDINGS

COMPANY	SECTOR	% OF FUND
LANCASHIRE HLDGS	FINANCIALS	2.9%
YARA INTERNATIONAL	INDUSTRIALS & MATERIALS	2.9%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	2.8%
ENI	ENERGY	2.5%
RICHEMONT	CONSUMER DISCRETIONARY	2.3%
SMITHS GROUP	INDUSTRIALS & MATERIALS	2.3%
SK TELECOM	TELECOMS & UTILITIES	2.2%
TELIA COMPANY	TELECOMS & UTILITIES	2.2%
GLAXOSMITHKLINE	HEALTHCARE	2.1%
HARLEY DAVIDSON	CONSUMER DISCRETIONARY	2.0%

GEOGRAPHIC & ASSET SPLIT

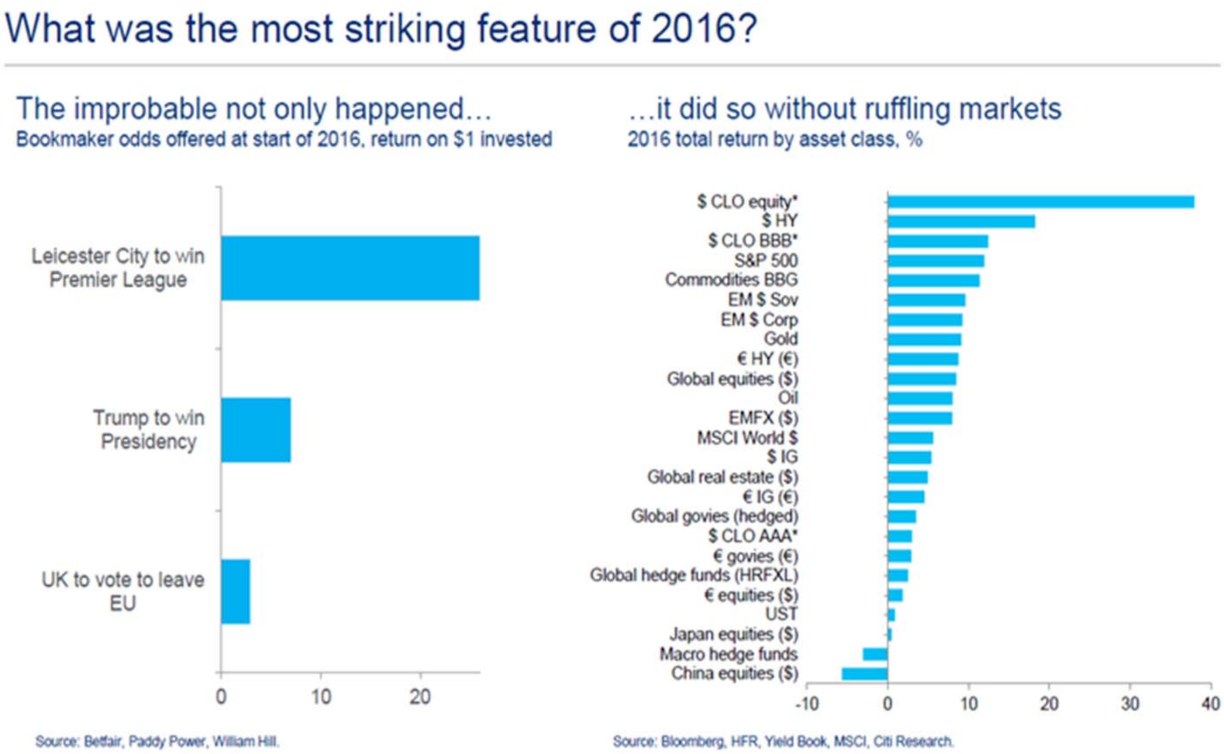


*includes 3.7% in IRES REIT

HISTORIC INCOME

	Income Earned % of Fund Value
2011	6.2%
2012	5.0%
2013	5.5%
2014	4.8%
2015	5.5%
2016	4.7%

2016 was the year of the upset – Leicester City, Donald Trump, Nigel Farage and closer to home, the rise of (political) independents and Connacht rugby. Nobody told equity markets! Most major markets performed strongly (see graph below; source: Citi), continuing their largely uninterrupted upward trend since March 2009. Indeed, despite anticipating the opposite, market participants appeared to embrace the unexpected; witness, the strengthening of the dollar post Donald Trump's electoral triumph, while the UK equity market more than absorbed the post-Brexit weakness in sterling, to continue to rise in value.



Units in the Income Opportunities Fund increased in value by almost 10% over the past year. This follows increases of 11%, 8%, 15% and 12% over the prior four years; over the past five years the fund has thus posted a cumulative average increase of 11%. In historic terms, an increase in real value over those five years of around 9.5% (i.e. allowing for inflation of 1.5%) is certainly a handsome return, bettering the long-term average return on equities and bonds. Looking ahead, our mandate remains to sieve and sift through the aggregate of the market and opportunistically find a collection of individual investments, which we believe will deliver above-average levels of income, while preserving and growing capital over the long-run.

Laying the foundations for the coming years is an ongoing task, as the horizon is ever-shifting. In this regard, we are satisfied with the major new additions to the fund this year: Cisco, Svenska Handelsbanken, Harley Davidson, Procter and Gamble, Proximus, REN, Euler-Hermes, Richemont, SK Telecom, and United Utilities. Generally speaking, these are businesses with strong 'moats' around them, solid balance sheets and good cash generation. The dividend yield at the times of acquisition of these companies was on average more than 4.0%. Additionally, drawing on Setanta's credit expertise we added two corporate bonds to the portfolio. Issued by Tullow Oil and Ocean Yield, at acquisition both bonds offered a combination of downside protection, relatively short maturities and attractive coupons. The Income Opportunities Fund has the scope to take advantage of investment opportunities in this and other hunting grounds, where Setanta's core competence of fundamental-based value investment can uncover attractive returns.

We sold the entirety of our holdings in Pearson, Diamond Offshore, People's United Bank and Pfizer during the year. In the case of Pearson, we underestimated structural challenges facing the company and for Diamond Offshore, a severe cyclical downturn which led to the elimination of its dividends for the foreseeable future. The sales of Pfizer and People's were more satisfactory following more profitable holding periods. In addition, we also 'lost' our holding in Wincor Nixdorf, following its cash and shares acquisition by its peer, Diebold.

The Fund cash weight was around 30% through the year. Given the prevalence of negative interest rates, this was at a small net cost to the Fund. We were prepared to absorb this cost, bearing in mind the fund's objective of capital preservation and the optionality it provides. Indeed, some of this capital was utilised in our option-writing strategy, particularly as 'cover' for written put options.

Our paramount concern is performance over the long-term, rather than over a year (or indeed, a quarter or a month, the timeframe of focus of some investment firms). This is in recognition of the cycles to which markets are prone, not to mention the 'noise' continuously being generated in this age of instant, and often erroneous, information. Over three, and five years, the Fund's units have increased in value by cumulative annual averages of 9.5%, and 11.0% respectively, well ahead of its inflation benchmark, while delivering an annual average income of just over 5% per annum.

Richard Doyle and David Pastor – Portfolio Managers

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