Setanta Managed Fund – Q1 2017

Setanta
ASSET MANAGEMENT

Fund Description

The **Managed Fund** ("the Fund"), managed by Setanta Asset Management Limited ("Setanta"), is a unit-linked offering of Irish Life Assurance Limited.

The Fund is an actively managed multi-asset portfolio, which holds a combination of equities, fixed income, property, commodities and cash. The Fund holds between 50-80% of its assets in equities. The asset exposures of the Fund are achieved primarily via:

- Equities: The Setanta Global Equity Fund; Global Equity UCITS Fund; Asia Fund
- Fixed Income: The Setanta Fixed Income Fund; ILA Fixed Interest Fund
- Property: The Canada Life Property Fund
- Commodities: The ETFS All-Commodities DJ-UBS
- Cash: The Setanta Liquidity Fund
- Absolute Value: Income Opportunities Fund

The investment objective of the Fund is to outperform the median of the domestic Managed Fund peer group.

Fund Commentary

The Managed Fund has started 2017 strongly, returning 4.01% over the first quarter.

There was mixed performance across asset classes, a theme following on from last year. Equities started well, with our global equities delivering 5.6% over the quarter. Bonds were mixed, longer dated European government debt was down (-2.0%) while our absolute return bond fund, holding credit and emerging market debt, was up (+2.0%).

Equity markets continued on the bullishness from last year, even though valuations look stretched. Within our sector funds, energy (-6.14%) fell as Oil give up a bit of ground while I.T. (+11.56%) posted double digit returns.

(Fund Commentary continued on Page 3)

Portfolio Managers

Kieran Dempsey & David Ryan CFA, CAIA, FRM

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.

Irish Pensions AWARDS 2015 WINNER Equities Manager of the Year

Irish Pensions AWARDS 2016 WINNER Equities Manager of the Year

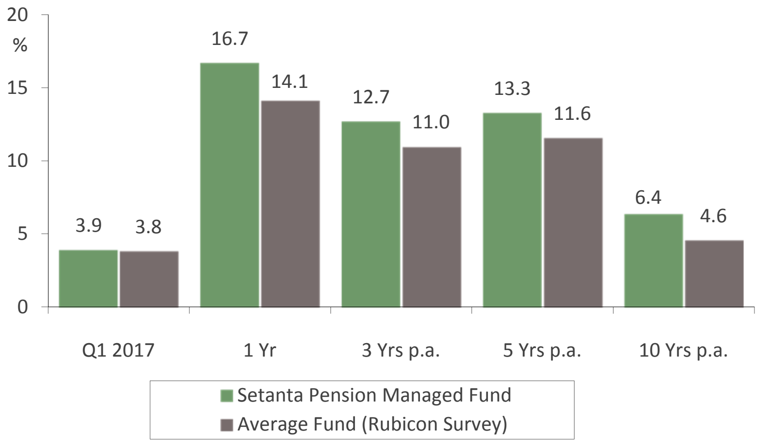
Irish Pensions AWARDS 2014 WINNER Equities manager of the year

Irish Pensions AWARDS 2013 WINNER Equities Manager of the Year

Irish Pensions AWARDS 2012 WINNER Equities Manager of the Year

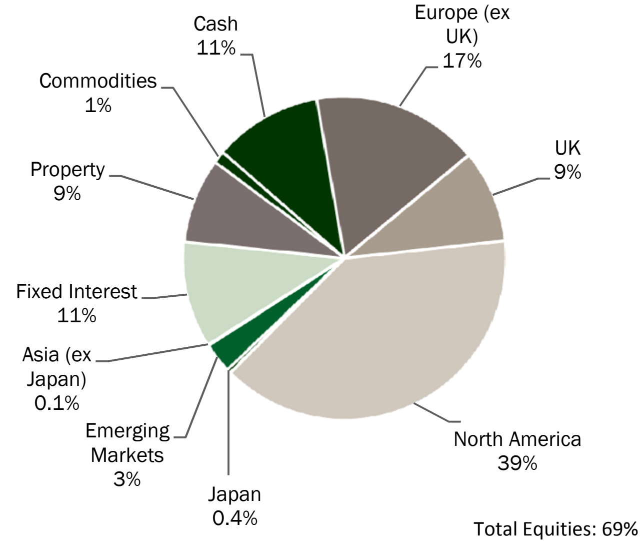
Setanta
ASSET MANAGEMENT

FUND PERFORMANCE – 31.03.17



Performance Source: Setanta Asset Management Limited. Benchmark: Rubicon Pension Managed Fund Survey. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund and are net of management fees. Credit Rating Source: S&P

GEOGRAPHIC DISTRIBUTION

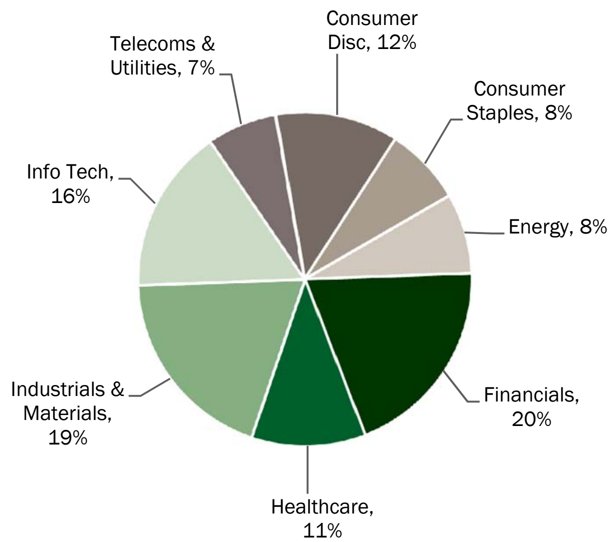


Total Equities: 69%

FIXED INTEREST PORTFOLIO

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHTING	BENCHMARK WEIGHTING
AAA	24.1%	22.7%
AA	34.3%	38.1%
A	3.7%	2.5%
BBB	37.9%	36.8%
	100%	100%

SECTOR DISTRIBUTION



TOP 10 EQUITY HOLDINGS

COMPANY	SECTOR	% OF FUND
OWENS-ILLINOIS	INDUSTRIALS & MATERIALS	2.2%
DCC	INDUSTRIALS & MATERIALS	2.1%
BERKSHIRE HATHAWAY	FINANCIALS	2.0%
CRH	INDUSTRIALS & MATERIALS	2.0%
LEUCADIA NATIONAL	FINANCIALS	1.9%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	1.7%
OSHKOSH	INDUSTRIALS & MATERIALS	1.6%
JOHNSON & JOHNSON	HEALTHCARE	1.5%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	1.4%
FAIRFAX FINANCIAL	FINANCIALS	1.4%

YEARLY PERFORMANCE

Year %	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund	-20.4	12.2	9.8	21.7	9.1	-1.8	-29.6	22.9	9.5	0.5	14.2	18.5	17.8	8.3	12.2
Benchmark	-19.0	12.2	10.2	21.7	13.3	-3.9	-35.6	22.0	11.3	-3.6	14.3	16.6	15.6	9.5	5.9

It is currently difficult to be too optimistic on expected returns across the main asset classes, with valuations across equities, government debt and corporate credit looking stretched versus long term historical norms.

Equity market indices continue to grind higher, mainly led by multiple expansion rather than earnings growth. Eight years into a recovery and equities still react nervously to any strong talk of interest rate normalisation or central bank balance sheet reduction, with such rhetoric inevitably leading to spike in market volatility. Near term, Trumps pro-growth measures of lower taxes and deregulation would seem to be overwhelming any concerns over his protectionist agenda (and albeit less frequent tweets!).

Developed government debt offers low nominal and real returns. Term premium, the yield pick-up for extending out the yield curve, is only marginally positive. Bond market duration and yields are at their longest maturity and lowest level historically, culminating in a high risk low return scenario. Any move back to normal rates could leave governments generating little more than cash like returns over the medium term.

Emerging markets offer some value, through both carry on higher coupons and the possibility of an additional pickup on currency appreciation within certain markets. Local and hard currency (Dollar & Euro) debt have cheapened up on the expectation of fed hikes leading to a reallocation of capital away from these markets.

Corporate credit, while offering lower expected returns in sympathy with government yields, as central bank distorts through low rates and large purchase programs, still offers some credit risk premium (yield pickup for taking default risk) and excess return through spread pickup versus governments. Default rates have been generally low (ex-energy) in the most recent credit cycle, with corporates benefitting from being able to refinance and re-price debt in a lower and more liquid credit environment.

So, we prefer equities over developed government fixed income, and in fixed income we look to credit and emerging market government debt to deliver returns ahead of developed market debt, and have continued to allocate capital with this in mind.

Currently markets seem fixated on political rather than economic risk, with the upcoming French elections garnering attention. Polls point to a reasonable showing by Marine Le Pen, the anti-euro National Front candidate, with all the ensuing volatility that outcome could create. Most European countries seem to be offering some contentious populist candidates, with markets understandably wary having been wrong-footed on the Brexit and Trump elections.

Adding to concerns, markets that have gotten used to monetary stimulus, now need to adjust to a shift in policymakers agendas on broadening inflation and growth expectations. The Fed continues to normalise rates (with a hike in March to 1%) and a few more hikes priced this year and next, while the ECB are slowly rowing back on bond purchases (a sort of stealth tightening). Flatter curves may be the outcome, as short rates move higher than the longer end. While government debt still offers some level of stabilisation to funds in a risk off environment, outside of that function there is precious little buffer to rising bond yields.

Equities look better value than bonds on some measures (earnings yield versus bond yield), while credit looks better value than government debt on spread pickup (credit yield minus government yields) given current expectations for loss given default implicit within spreads. Though, none look particularly attractive in their own right, with the sinking feeling that we have already booked returns ahead of time.

With likely expected returns so low for most asset classes in general, we would hope our active management will help deliver positive returns and likely a greater proportionate share of total return. The concentrated nature of our equity and credit portfolios over time should help negate the general richness of the various markets. Where any sell-off potentially offering some good entry points or opportunity to add to favoured positions.

We have recently built up a certain amount of cash in the fund. While there is a perception that a growing cash position has an inverse relationship to the availability of good ideas, this is not so much the case here. While we don’t try to make big macro or timing calls, we would generally like to put money to work when there is a lack of liquidity in the market and fear permeates. So while not allocated just yet, we are mindful of the cash drag over time, and would hope to act as opportunities arise, in line with the thinking of one of Buffet’s great investors.

“We do a lot of thinking and not a lot of acting. A lot of investors do a lot of acting, and not a lot of thinking.” Lou Simpson, Geico

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IMPORTANT INFORMATION