

## 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

In the first quarter the Managed Fund returned -2.4%, giving back some of the strong gains seen in 2017.

Within asset classes, equities fell (-4.0%), the Industrials and Materials sector was the laggard (-7.1%) with only the Information Technology sector posting positive returns (+3.7%) amongst all the sectors for the quarter.

Government debt posted a positive return for the quarter (+2.8%), as we saw positive performance in the peripherals outweighing negative sentiment towards the higher rated core. Our short dated credit and emerging market debt was marginally positive (+0.3%), picking up carry and roll down, due to steeper yield curves.

*(Fund Commentary continued on Page 3)*

## Portfolio Managers

Kieran Dempsey & David Ryan CFA, CAIA, FRM

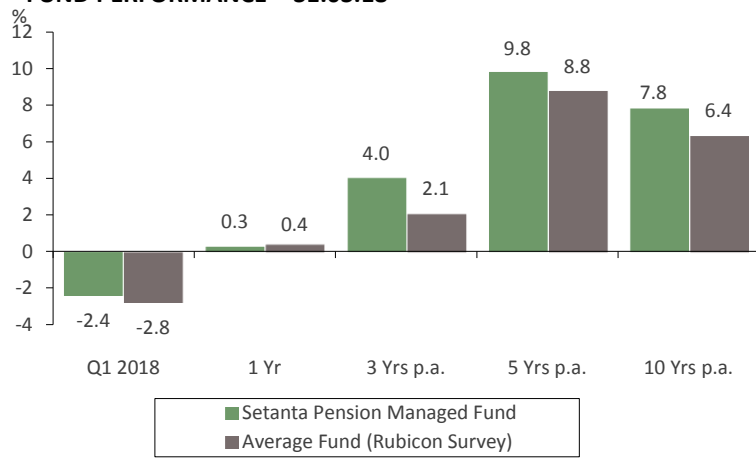


## Investment Principles

- 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.



## FUND PERFORMANCE – 31.03.18



**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

## FIXED INTEREST PORTFOLIO

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHTING	BENCHMARK WEIGHTING
AAA	18.3%	24.1%
AA	35.0%	32.0%
A	2.1%	2.6%
BBB	44.6%	41.3%
	100%	100%

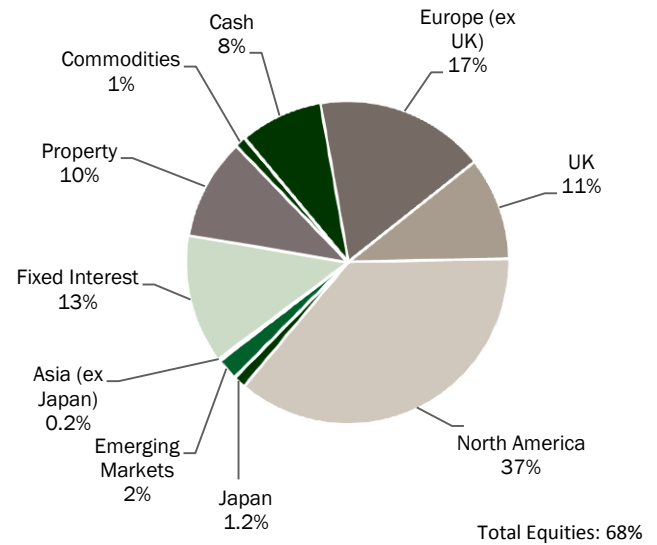
## TOP 10 EQUITY HOLDINGS

COMPANY	SECTOR	% OF FUND
OWENS-ILLINOIS	INDUSTRIALS & MATERIALS	2.0%
BERKSHIRE HATHAWAY	FINANCIALS	1.9%
MICROSOFT	INFORMATION TECHNOLOGY	1.9%
DCC	INDUSTRIALS & MATERIALS	1.9%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	1.8%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	1.7%
FEDERATED INVESTORS	FINANCIALS	1.7%
OSHKOSH	INDUSTRIALS & MATERIALS	1.7%
FAIRFAX FINANCIAL	FINANCIALS	1.6%
CRH	INDUSTRIALS & MATERIALS	1.6%

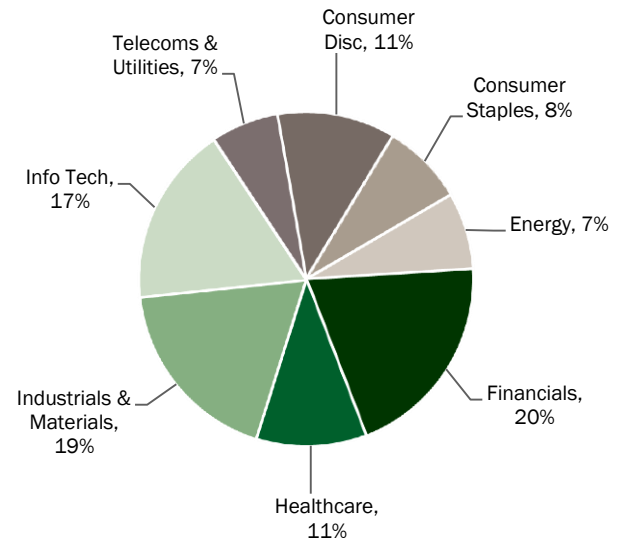
## YEARLY PERFORMANCE

Year %	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	6.8
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	7.3

## GEOGRAPHIC DISTRIBUTION



## SECTOR DISTRIBUTION



Irish Property continued to perform (+1.8%), following on from strong performance in 2017, Q1 2018 saw twice the volume of sales recorded for the same period last year. The strength of investment in the opening quarter reflects a positive view of the country's successful economic performance, retaining its position as the fastest growing economy in the EU in 2017

Commodities were weaker (-3.5%), though there is some expectation of underlying support, if global synchronised growth continues to be robust and the sabre rattling regarding trade wars does not escalate.

## Market Commentary

Over the quarter, there are two key points to note given the negative performance, the move higher in both volatility and correlations of asset returns. This may be the start of a regime change in underlying volatility and a period of scant diversification.

Regime change tends to be associated with the replacement of a government, while the term can also refer to a change in laws affecting the nature of a system as a whole (e.g. the end of the Bretton Woods system, within currency management). Regime change can have a defined mathematical definition, within financial markets it tends to refer to a shift in volatility.

Market volatility moves in cycles, spending time in a low volatility/rising asset price regime followed by high volatility/falling asset price one, with a tendency for a reversion to the mean.

Now, this may all sound vaguely interesting, but what is its relevance to investors in general and multi-asset funds in particular. Firstly, it's important to realise what regime you've been in. The recent past has seen one of the lowest volatility regimes ever, with 14 of the 20 lowest volatility readings in equities for example occurring in 2017 (as measured by the VIX Index - measuring the implied volatility of stock options on shares in the S&P 500).

The VIX Index, spent most of 2017 trading around the 10 level. In early February a near ten per cent selloff in equities, inspired by an inflation scare and rising bond yields, caused the VIX to spike to over 50. The index closed Q1 around 16, a level higher than the highs in all of 2017. We may be entering a regime change in market volatility, possibly driven from the move away from quantitative easing to quantitative tightening.

This low volatility has also been evident in other asset classes. Various measures of multi-asset funds return per unit of risk (Sharpe ratio) are printing at historic highs, with equity & bond markets prices rising in tandem (positive correlation of assets returns and low dispersion within asset classes) with very little movement lower. This can lead to increases in overall risk due to the "Volatility Paradox", where long periods of low volatility results in excessive risk taking and re-leveraging by pro-cyclical investors.

In relation to correlation, the selloff and rising volatility was accompanied by higher government bond yields. Historically, falling equity returns lead to falling government bond yields (positive returns). This relationship however cannot be relied upon, which makes diversification very challenging. Cash can help, but it doesn't offer any real hedging (beta to volatility), but does offer something of a buffer and optionality to pick up assets cheaper. So, both rising volatility and lower correlations among assets, should as value investors, increase our opportunities over time.

As value investors we have a totally different view of the measure of risk. We are less concerned about increases in the price volatility and more in falls of intrinsic value, with permanent loss of capital the yardstick. Whether our positions exhibit greater volatility does not overly concern us. Though psychologically it can be trying. Volatile markets can lead to weak hands and nervous sellers and this in itself can create opportunity.

Following on from the February weakness, a pickup in volatility in March was caused by US trade policy. First by President Trump's protectionist rhetoric (negotiating tactic or genuine) and secondly import taxes on steel and aluminium. This is concerning as free trade allowed the global economy to grow faster, raising employment and incomes. Restrictions to trade could cause frictions, raising inflation, slowing growth, and reducing profit margins.

This would feed back into consumer sentiment through indirect wealth effects such as lower stock prices. These risks, though intangible to a certain extent (one tweet away from reversing), have risen nonetheless.

Beyond, macro and geopolitical concerns, home grown political issues have also come to the fore for technology firms over Q1. A discovery that a consulting firm had used Facebook data of millions of people without permission increased risk of legislative changes and customer attrition. Other tech fell in sympathy on fears of the tougher scrutiny. This suited our positioning as we currently do not hold any of the FAANG stocks (Facebook, Apple, Amazon, Netflix and Google).

Leaving Q1, we continue to be concerned that at current bond yield levels with shifting volatilities and correlations that bonds may not act as the diversifier they once were for multi asset funds. While longer dated higher quality bonds should still offer some protection in a marked drawdown, our bias is towards shorter duration in general, given the lack of term premium (compensation) for taking on the longer term risk. We continue to have an allocation to a cash buffer available and ready to take advantage of motivated sellers with shorter time horizons and different views of risk than ourselves.

*David Ryan – Portfolio Manager*

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#### **IMPORTANT INFORMATION**

For this life assurance product, investors should refer to the relevant policy conditions available now through Irish Life. The strategy is also available on a segregated basis or via the Setanta UCITS mutual fund via Setanta Asset Management Funds plc. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and 'IMPORTANT INFORMATION' below.

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