Setanta Managed Fund – Q3 2018

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 Setanta Managed Fund was up +4.2% over the second quarter, bringing year to date performance to +5.7%.

Global equities were again quite strong, gaining +6.0%. Within equity sectors, Healthcare (+13.3%) and Information Technology (+11.4%) were particularly strong, while Consumer Staples (+0.8%) and Energy (+1.1%) lagged over the quarter. Absolute contribution across all sectors lead to a 0.5% outperformance of our equities versus the MSCI world benchmark (6.0% vs. 5.5%).

(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

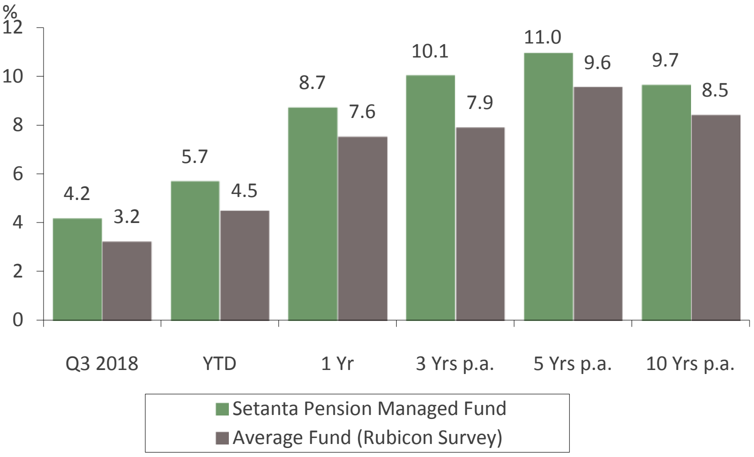
Irish Pensions AWARDS 2016 WINNER Equities Manager of the Year

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

FUND PERFORMANCE – 30.09.18



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

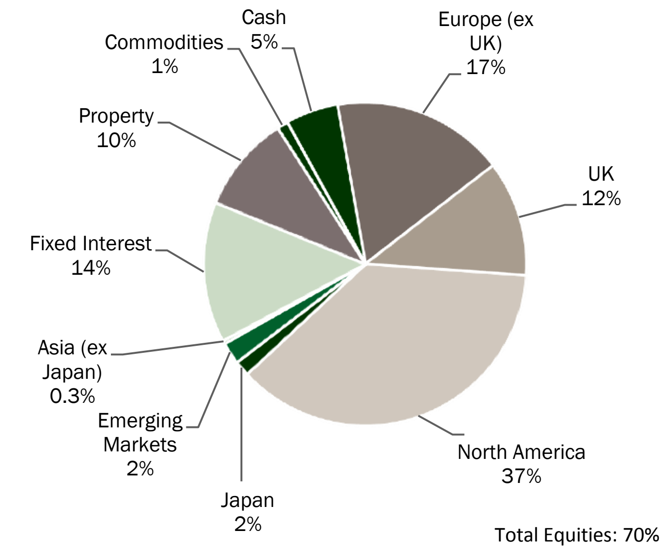
CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHTING	BENCHMARK WEIGHTING
AAA	17.7%	20.3%
AA	36.8%	38.1%
A	22.2%	19.0%
BBB	23.3%	22.5%
	100%	100%

Rating Source: S&P

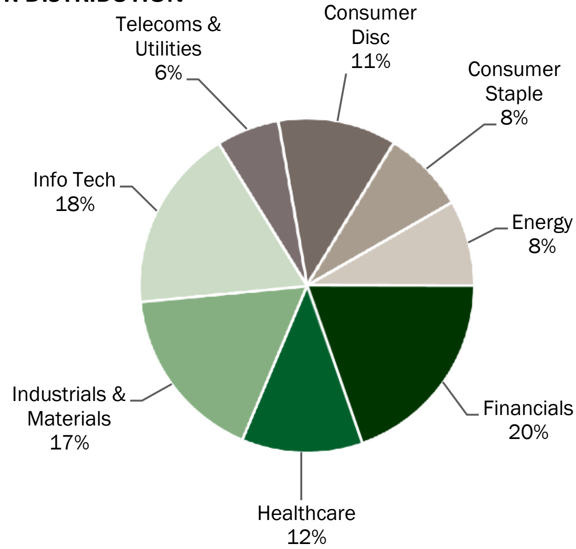
TOP 10 EQUITY HOLDINGS

COMPANY	SECTOR	% OF FUND
DCC	INDUSTRIALS & MATERIALS	2.0%
BERKSHIRE HATHAWAY	FINANCIALS	2.0%
MICROSOFT	INFORMATION TECHNOLOGY	1.9%
OWENS-ILLINOIS	INDUSTRIALS & MATERIALS	1.7%
OSHKOSH	INDUSTRIALS & MATERIALS	1.6%
MELROSE INDUSTRIES	INDUSTRIALS & MATERIALS	1.6%
JEFFERIES FINANCIAL GROUP	FINANCIALS	1.6%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	1.5%
CRH	INDUSTRIALS & MATERIALS	1.4%
FAIRFAX FINANCIAL	FINANCIALS	1.4%

GEOGRAPHIC DISTRIBUTION



SECTOR DISTRIBUTION



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

European government bonds suffered (-1.22%) while our credit fund (+2.40%) contributed, driven by strong performance in some recently added Turkish corporates. Within our alternative positions, Property (+1.67%) and Income opportunities (+2.57%) were positive, while Commodities were negative (-1.44%).

Turning to the economy, data should soon confirm eight consecutive quarters of above trend global expansion, while highlighting the overdependence on the US. Output gaps are largely closed, central bank policy support waning and concerns growing about who will take over from the US (some signs of China slowing).

Globally, headline inflation pressures are starting to rise (though core remains contained), and risks to activity are more skewed to the downside (as global output measures are rolling over) as markets contemplate the reversal of globalisation as protectionist rhetoric has become reality.

Outside the US, growth in Europe and Japan has been lacklustre with growth in some Emerging Markets (EM) weakening (outside of the Oil exporters, benefitting from Oil at $70), with evidence of tightening financial conditions in general. EM currencies have taken the brunt of the selloff, there is little sign of contagion into other developed financial assets (as yet).

Argentina and Turkey are garnering most headlines. Turkey is doing everything to exacerbate their problems (external financing requirements). While Argentina (lack of policy credibility) have turned to an early IMF disbursement and significantly hiked interest rates (+2,000bps). A politically fraught general election is due in Brazil in quarter four, which could add to near term emerging market volatility.

Trade tensions continue, though somewhat reduced. There are signs of a new NAFTA agreement, while the US-China bilateral trade conflict ratcheted higher. Some question the wisdom of putting tariffs on those who are funding your burgeoning government deficit, and it is likely there will be repercussions.

Closer to home, Italy confirmed plans of an expansionary fiscal policy. Likely raising the deficit to ~2.4% of GDP, tensions will continue with the European commission as this violates the fiscal compact. Ten year Italian bond yields rose from 2.68% to 3.15% over the quarter, as markets remain nervous of these populist actions.

In the UK, Brexit muddles along, with debates around new proposals for an Irish backstop, with some acceptance of a possible soft border and a tentative alignment with the customs union. There will be more votes, threats of a general election or even a second referendum, with some fudge of an agreement eventually.

In the US, unemployment has hit the lowest level since 1969 (3.7%), having a knock on effect on wages and likely to keep the Fed hiking with their fourth hike of the year expected in December. Hawkish comments from Fed Chairman Powell that rates may need to go “somewhat above neutral” have not helped bonds. It’s worth noting now that with two year US yields around 2.8%, when compared to local dividend yield of 1.8%, there may be some competition for capital as investors become more wary of a maturing investment cycle.

The ECB remain committed to interest rates at current levels (0.00%) through the summer of 2019 and the reduction in the asset purchasing programme (from 30bn a month last quarter to 15bn to the end of 2018) with the ongoing reinvestment of maturities as long as needed. Also, just in case you were worried with QE ending this year, according to the European Court of Justice (ECJ) during the quarter, it turns out it was legal all along!

European inflation remains muted, with forward looking market measures around 1.7% and forecasters stable around 1.9%. That said, there has been a pickup in wage inflation, with growth in compensation per employee considerably higher than previous year end (2.3% vs. 1.8%).

European government bond market conditions remain volatile, with yields of Italian bonds rising. Other countries have been affected to different degrees, but any spill over has largely been contained. Corporate credit spreads widened, with financials a little bit more than non-financials. Spread levels were driven more by a repricing of risk, than outright concerns around default probabilities, with absolute levels still well below historic norms.

The Euro broadly strengthened in trade weighted terms, though weakening versus the US Dollar and Swiss franc, with a certain appetite for safe haven currencies given the sharp depreciation of some emerging market currencies. While there is also the ongoing widening of interest rate expectations amongst various economies, with the Fed continuing to hike.

Europe continues to add jobs, with falling unemployment likely to soften the ECB dovish tone. Like the US, soft survey data points towards growth, but hard data has disappointed somewhat. While retail sales remain strong, and consumer spending in general positive, industrial production has contracted over the last number of months (with a drag from the auto sector on new emission standards).

Looking at financial markets, there has been an ongoing winning theme of owning US Dollars, US equities in general (technology in particular) and Oil versus selling developed market bonds and anything with emerging market in the name.

This even in an environment where valuations look stretched, within the second longest business cycle and the longest (though not ended) fed rate hiking environment. However, with inflation relatively subdued you are still seeing low to negative real rates and a level of gradualism akin to watching paint dry. Markets have been relatively agnostic around the Fed moves, though there is a tendency for things to “blow up” as rates move higher from a period of accommodation.

Equity markets have been relatively sanguine to bond yields moving higher (it’s often the speed not the trend that causes the problems). With the US outperforming Europe and commodities outperforming bond proxies. At the margin, higher yields on strong growth should favour commodity cyclicals and financials.

So, at a broad level, global growth seems fine, though narrowing and led by the US. Further fiscal stimulus (again US led) and ongoing rate hiking gradualism should support markets, but with rising trade disputes and inflationary pressures cautioning against complacency. While, as yet, there has been little reaction to rising interest rates and bond yields, outside of a general selloff in EM to a tightening financial conditions, this could change very quickly into thin markets in quarter four.

David Ryan – Portfolio Manager

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