Setanta Managed Fund
Q3 2020

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 Managed Fund is an actively managed multi-asset portfolio, which holds a combination of equities, fixed income, property, commodities, cash and absolute value. The Fund holds between 50-80% of its assets in equities, reflecting the breadth of the market and Setanta's expertise in the area. The portfolio is managed in accordance with the Setanta investment philosophy. That is, the managers seek to own good assets for the long-term at prices below what they think they're worth, carefully considering each investment's risk profile.

The investment objective of the Fund is to outperform the median of competitor Managed Fund offerings over the long term.

Fund Commentary

The Setanta Managed Fund gained +0.7% over the third quarter, bringing the year to date return to -10.7%.

Global equity markets were strong over the period. With our global equities while positive +0.5%, lagging the benchmark move of +3.4% by -2.9%.

Within global equities, the Consumer Discretionary (+6.5%) and I.T. (+4.3%) sectors were the leaders in performance, while Energy (-11.3%) and Financials (-4.3%), were the laggards.

(Fund Commentary continued on Page 3)

Portfolio Managers

Kieran Dempsey & David Ryan CFA, CAIA, FRM

Our Investment Principles

We do not believe markets are efficient

We invest below our estimate of intrinsic value

We invest in businesses rather than buying stocks

Preservation of our clients' capital is key

Investing is a marathon, not a sprint

We are not afraid to swim against the tide

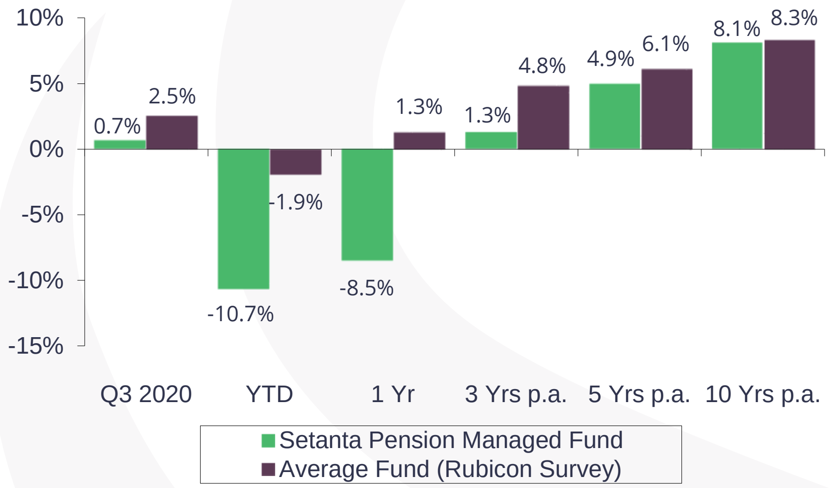
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

Fund Performance – 30.09.20 (EUR)

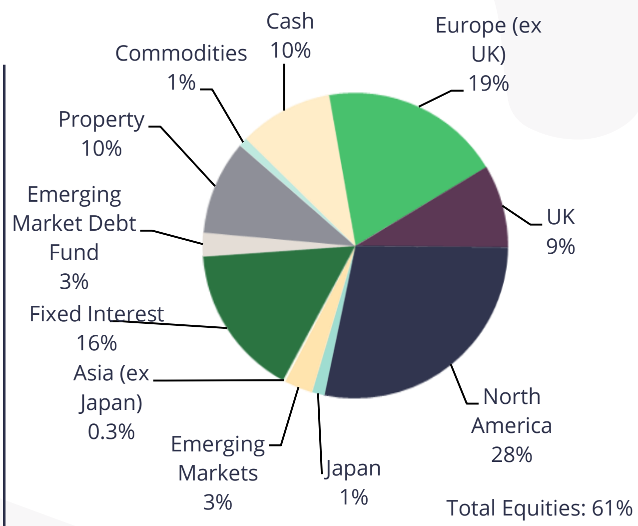


Performance Source: Setanta Asset Management Limited. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund (ILA/CLI Setanta Managed Fund [H012]) and are net of management fees. Benchmark: Rubicon Pension Managed Fund Survey. **Holdings Source:** Setanta. Sector allocations based on invested portfolio only (excludes cash).
Credit Rating Source: S&P

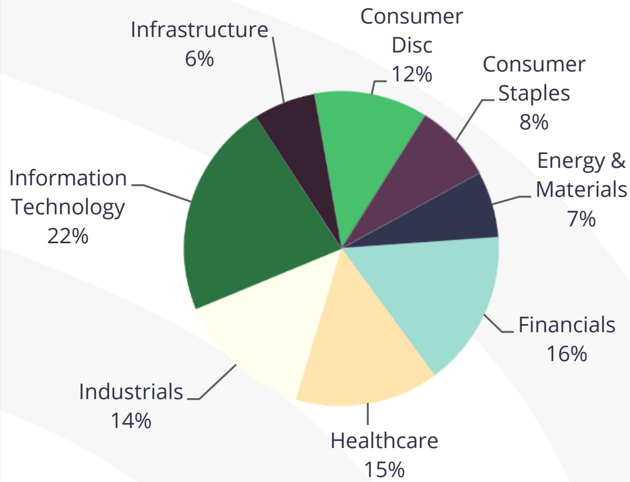
Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT CORP	INFORMATION TECHNOLOGY	2.8%
BERKSHIRE HATHAWAY	FINANCIALS	2.1%
DCC	INDUSTRIALS	1.7%
ORACLE CORP	INFORMATION TECHNOLOGY	1.5%
JOHNSON & JOHNSON	HEALTHCARE	1.5%
ERICSSON	INFORMATION TECHNOLOGY	1.5%
JOHNSON CONTROLS	INDUSTRIALS	1.4%
NIKE INC	CONSUMER DISCRETIONARY	1.4%
KEYSIGHT TECHNOLOGIES	INFORMATION TECHNOLOGY	1.4%
GPE BRUXELLES LAMBERT	FINANCIALS	1.3%

Geographic & Asset Distribution



Sector Distribution



Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	ASSET TYPE WEIGHTING	BENCHMARK WEIGHTING
AAA	15.0%	21.5%
AA	41.1%	37.7%
A	11.8%	18.0%
BBB	32.1%	22.8%
	100.0%	100.0%

Yearly Performance

Year %	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fund	-1.8	-29.6	22.9	9.5	0.5	14.2	18.5	17.8	7.9	12.2	6.8	-2.7	16.1
Benchmark	-3.9	-35.6	22.0	11.3	-3.6	14.3	16.6	15.6	9.5	5.9	7.3	-5.2	20.6

SETANTA
Asset Management

Commentary

Looking across the other assets, cash was slightly negative, while bonds, European governments (+2.7%) and Credit (+1.9%) contributed positively to the fund return.

We added an allocation (2.5% of the fund) to Emerging Market debt at favourable yields, though it finished marginally down (-1.1%) on concerns around a second wave of COVID affecting global GDP towards the end of the quarter.

Irish property was flat (-0.2%), with a likely holding pattern in place until investors become more sure of the future of property in general. Vacancy rates remain low, while the negative effect of working from home may in time be offset by a demand for increased space per employee. Our exposure holds no leverage, so this will give it time to manage through the near term malaise.

The allocation to Income Opportunities (-1.8%) fell, primarily due to equity selection as its other holdings were broadly flat. Falling prices outpaced income derived from the options overlay strategy, equity dividends and coupons from bond holdings.

Global equities, our largest holding at ~60% of the fund, has continued to underperform the global equity benchmark, dragging the overall fund performance lower over the last year or so.

While this may raise some near term concern, I think it's worth reiterating our value investing philosophy. Namely, investing should be based on sound economic sense and long term empirical evidence. What you pay for an investment, the price, will affect your return. The less you pay, all else equal, the higher the expected return. Value investing looks to buy a stream of, albeit theoretically more visible, relatively slower growing cash flows, at a market price less than the intrinsic value. That would seem to be reasonably economically sensible.

Expanding on this in the current macro environment, value stocks are deemed short duration assets (more cash now, than hoping for a windfall later), with less value based on the allure of extrapolating high growth rates into the future. The recent discounting of hypothetical future growth, with lower and lower interest rates has given a greater upside to longer duration (growth) stocks. Which by nature of their size (market capitalization), has led to market outperformance been driven by a smaller number of larger companies (think large technology).

There is debate around this simplistic explanation of value underperformance and growth (market) outperformance, though it has a nice narrative, and for arguments sake let's assume it is true. In this case, it explains historic performance with the grind lower in rates an obvious tailwind. Now, we don't try to call interest rates cycles, only to note their historic lows, and if this has been detrimental to value stocks performance in the recent pass, it should prove less so in the future.

Turning to empirical evidence. Data points to nearly a century of returns showing that the value style of investing outperforms the market. Does it outperform all the time? No. It has however successfully navigated major economic upheavals (depressions), political strife (world wars) and various periods of disruption before. It's not so long ago this same conversation arose around the tech bubble (1990's), prior to that the Biotech Bubble (1980's) and even further back the era of the Nifty Fifty (1970's). Each time the underperformance of "Value Investing", was seen as a precursor to its death.

So various arguments that this time is different, economies are more service led than when value investing grew to prominence, some valuation metrics are now outdated as book values struggle to take account of intangible assets (even though value investors can use a range of metrics, price to cash flow is less susceptible to this specific concern for example) or simply the value premium has simply stopped working, to me seems unlikely, time will tell.

Commentary

Could this underperformance go on longer, value underperforming the general market? Yes. The timing of a reversion of performance or a rotation of investing styles is unknown, but the likelihood of it happening is getting higher.

With this likelihood in mind, to capture a premium or return in the market, you need to remain in that style/market, through good and bad! Returns, absolute and relative are lumpy, and can be generated over very short time horizons. A simple recollection of returns up to the Tech bubble in the early 2000s, where value underperformed over numerous calendar periods, only to reverse all the underperformance one year later is just a recent example.

Global equity is and will remain a core holding of the Managed Fund, and rather than managing allocations though the rear view mirror we look forward to where we are going. The Managed Fund remains committed to investing based on economic sense and empirical validation. We maintain a robust portfolio through diversification across asset classes, a long term investing perspective, thereby increasing the probability of harvesting higher expected returns over time.

David Ryan – Portfolio Manager

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IMPORTANT INFORMATION

The Managed Fund is managed by Setanta Asset Management Limited and is a representative account of the Managed strategy. The performance shown is the performance of a representative account (ILA/CLI Setanta Managed Fund [H012]). For this life assurance product, investors should refer to the relevant policy conditions available through Irish Life and via www.irishlife.ie. The strategy is available on a separate account basis to institutional investors however current and prospective clients should not assume identical performance results to those shown would have been achieved for their account if it was invested in the strategy during the period. Clients of the firm may receive different performance than the representative account. Client performance may differ due to factors such as timing of investment(s), timing of withdrawal(s), client-mandated investment restrictions and the portfolio not being fully replicated for new accounts or new flows. Investors should consider the investment objectives, risks, charges and expenses carefully before investing. See 'WARNING' and IMPORTANT INFORMATION' below.

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