Setanta Income Opportunities Fund
Q4 2020

Fund Description

The **Income Opportunities Fund** ('the Fund') is an actively managed portfolio primarily comprising global equities but with the flexibility to invest in assets which offer attractive income and reasonable value. These assets include fixed income, property (including REITs) and cash. The Fund is not constrained by limitations on the level of any given asset. In practice, the Fund has had its greatest weight in equities, reflecting the breadth of that market, Setanta's expertise in that area, and the option writing strategy employed by the Fund. Nevertheless, property, fixed income and cash have all played meaningful roles in past returns of the Fund, at times, comprising up to 50% of the Fund's assets. 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 Fund is managed by three portfolio managers, who also look to leverage off the experience and knowledge of their colleagues. The aim is to achieve a sensible level of diversification on a sector and geographic basis.

The Fund employs an option writing strategy. This entails the sale of both call and put options in return for a cash premium, representing an income stream that boosts the underlying income yield of the Fund. This strategy is employed in a conservative fashion, as all options written are fully covered.

The Income Opportunities Fund has two investment objectives:

1. To generate an annual income yield at a target rate. This is declared at the start of each financial year.

2. To achieve capital appreciation over the long term.

Portfolio Managers

Richard Doyle, CFA; David Pastor, CFA; Caroline White, CFA



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

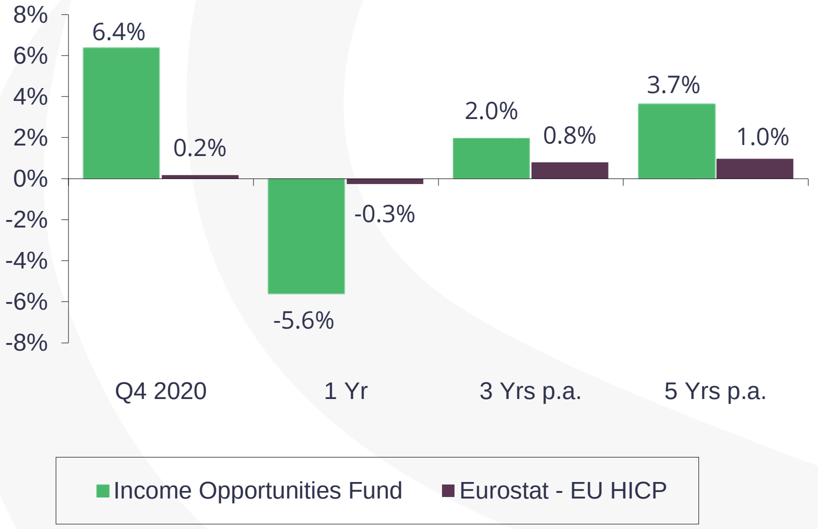
Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

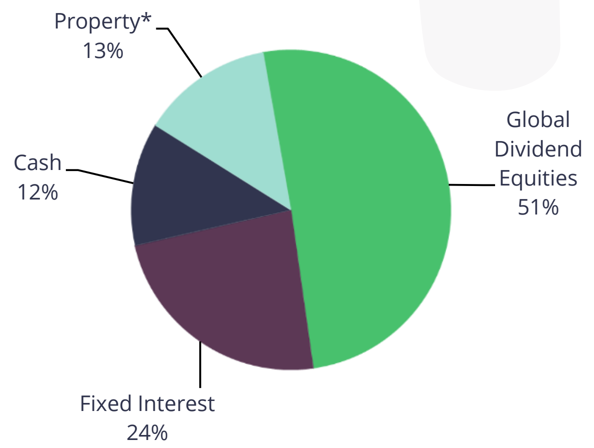
We will act with integrity in everything we do

SETANTA
Asset Management

Fund Performance – 31.12.2020 (EUR)



Asset Distribution



*includes 1.4% in IRES REIT

Yearly Performance

Year %	2016	2017	2018	2019	2020
Fund	9.7	2.9	-1.2	13.7	-5.6
Benchmark	1.1	1.4	1.6	1.1	-0.3

Performance Source: Setanta Asset Management Limited. The Fund returns stated are based on the movements in the unit prices of the ILA/CLI Income Opportunities Fund [P-INC1] and are gross of management fees. The performance will be reduced by the impact of management fees paid, the amount of which varies. **Benchmark:** Eurostat Harmonised Index of Consumer Prices (EUR). Inception as at 30.09.11 **Holdings Source:** Setanta.

Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
COCA-COLA AMATIL	CONSUMER STAPLES	3.2%
SVENSKA HANDELSBANKEN	FINANCIALS	2.2%
SAMPO OYJ	FINANCIALS	2.1%
CISCO SYSTEMS	INFORMATION TECHNOLOGY	2.0%
RICHEMONT	CONSUMER DISCRETIONARY	1.9%
SK TELECOM	INFRASTRUCTURE	1.9%
EXXON MOBIL CORP	ENERGY & MATERIALS	1.9%
ZARDOYA-OTIS	INDUSTRIALS	1.9%
UNILEVER PLC	CONSUMER STAPLES	1.7%
SANOFI	HEALTHCARE	1.7%

Historic Income

	Income Earned % of Fund Value
2011	6.2%
2012	5.6%
2013	5.5%
2014	4.8%
2015	5.5%
2016	4.7%
2017	4.1%
2018	3.9%
2019	4.2%
2020	3.9%

Overview

2020 was as surprising, and eventful, a year as we can recall. Aside from its dominant feature, the COVID-19 pandemic, it was also the year in which two of the 'chapters' that have strongly featured in the 'story' of the past four years, those of Brexit and the presidency of Donald Trump in the US, drew to a close. Last year was also the year in which a number of world leaders fell victim to the new virus; in the former's case, that of Boris Johnson, he became critically ill before recovering. The victory of Joe Biden, a centrist figure, in the US Presidential Election suggested some return to normality there, with consequences for global trade relations and US tax policy. At the end of this undulating year of lockdowns and periods of 'liberty', the announcement of the successful trials of a number of vaccines for the new virus brought hope to the world at large.

As some sectors of the global economy literally ground to a halt, economic growth collapsed. In many countries, such as Ireland, governments responded with a massive increase in welfare spending, reflecting the huge number of people rendered unemployed overnight; compensation to businesses ordered to close; and contingency investment in healthcare. In the US, the ratio of national debt to GDP jumped to its highest level since WWII, over 130%, as the federal government spent $3 trillion on COVID-19 related measures. Given the trend of the past decade, the decision of most central banks to commit to low interest rates for the foreseeable future was hardly a surprise, yet it is nevertheless remarkable. Debt issuance generally rose substantially, whether due to necessity or caution; in the US, corporate debt issuance last year greatly exceeded any other year on record (Source: Dealogic), albeit this was very much skewed to larger companies. After initially falling in the early stage of the pandemic, government bonds recovered to increase in value over the year, while in the US, most classes of corporate bonds benefitted from the support of the Federal Reserve. On a global basis, it's hard to remember a period in which the combination of fiscal and monetary policies has been so favourable to growth, whatever the long-term consequences. Despite all this, inflation remained muted; indeed, for the year, there was deflation in Europe (-0.3%, as measured by the Fund's benchmark, the Eurozone Harmonised Index of Consumer Prices).

In equity markets, the undulation in the real world was matched, as they had a rollercoaster ride. As we noted in the Q1 Commentary, at -32%, as measured by the MSCI World High Dividend Yield index, the peak-to-trough fall in the market exceeded the worst period of the Global Financial Crisis. By the end of the year, this index, representative of the Fund's equity universe, had substantially recovered, to finish 8% lower than at the start of the year.

Investment Commentary

The Income Opportunities Fund fell 5.6% on a per unit basis during 2020, reflecting a fall of just under 10% in capital terms, offset by a 3.9% return in income. This was, by some margin, the worst annual performance of the Fund since the strategy's launch, over which time it has achieved a 7.5% annual total return, substantially in excess of its benchmark. Over the past three, and five, year periods, the Fund has risen 2.0% and 3.7% per annum respectively, also outperforming its benchmark over these periods.

During this tumultuous year, the Fund battled on numerous fronts. Its main portfolio, that of equities, fell 9% last year. While certainly disappointing, it can be seen in the context of an environment in which income-oriented equities underperformed the broader equity market by 15% (as measured by the corresponding MSCI indices). Aside from the substantial discount that has been placed on 'value' stocks (as comprehensively discussed by our Global Equity colleagues in their Q3 2020 Commentary), this has also reflected an extraordinary year, in which many companies have effectively been prohibited from their commitment to pay dividends.

The largest detractor from the Fund's equity performance was **Saga**, the UK insurance and travel company. The COVID-19 pandemic had a particularly damaging impact on its business, as it was prohibited from operating its cruise business, which, to make matters worse, typically caters to a much older, and thus COVID-19 vulnerable, demographic. Management took a number of actions to both ensure the company's survival and to re-orient it to thrive in the medium-term. We supported these initiatives, which included debt refinancing, raising equity, appointing new management personnel and implementing new policies in the insurance broking business. While it seemed that any news relating to Saga last year was negative, positive news emerged late in the year, namely the strong success of the COVID-19 vaccinations in clinical trials and the beginning of a vaccination programme in the U.K., while the company's insurance business showed encouraging signs of renewal.

Against this, there were a number of equity investments that achieved strong total returns for the Fund. The biggest contributor to the Fund's performance was **Coca-Cola Amatil**, the Australian-based beverages producer, which rose substantially after becoming the subject of a takeover bid from a related Coca-Cola entity. **Fortescue**, the Australian iron ore producer, again made a material positive contribution to the Fund, due to a high level of steel production in China (iron ore being the key material used to make steel). Elsewhere, there were strong positive contributions from Information Technology holdings, **Taiwan Semiconductor Manufacturing Company** and **Samsung**, which both benefitted from the increasing strength of their foundry businesses, which produce semiconductor (chips) on behalf of third parties.

The Fund's bond performance was notably disappointing, reflecting the turmoil wreaked by COVID-19 on sectors to which its bonds were particularly exposed, including energy and automotive, which exacerbated already-difficult environments there, while currency moves were also unfavourable. In particular, the Fund incurred a material loss on its holding in **Valaris**, an offshore oil and gas driller. The Fund has had a relatively low position in oil and gas equity holdings in recent times, choosing instead to hold most of its exposure through bonds. Nevertheless, this was insufficient to protect it from the combined impact of a collapse in demand for oil and gas services, principally due to the impact of COVID-19 on demand for travel-related fuels, and a supply shock caused by OPEC's (the oil producers' cartel's) inability to provide price stability. This ultimately led Valaris to firstly suspend coupons (its interest payments) before then entering Chapter 11 proceedings to restructure its debt.

The Fund benefitted substantially earlier in the year from its conservative asset positioning; in particular, holding a large proportion of its assets in cash pre-pandemic. Its new portfolio of laddered bonds also made a positive contribution to the Fund and should be a material factor in income generation in coming years. The Fund's property assets, heretofore highly defensive in their ability to provide recurring income, lost value during the year, reflecting vacant offices and deserted main streets in Ireland. Nevertheless, they served to cushion the fall in the Fund's equity and bond portfolios.

Income Generation

The Fund generated an income yield of 3.9% in the year, a creditable performance given the pandemic, albeit fractionally below its 4.0% target. Although the Fund's dividend income was lower than expected at the start of the year, generally speaking the Fund's holdings demonstrated robustness through their ability to pay dividends, such that dividends received were roughly only 15% below prior expectations. This is an encouraging sign of the resilience of the Fund's investments. Of the 3.9% of income generated, more than half of it derived from dividends, while the remainder was roughly equally split between bond coupons; rental income; and option premia. Notwithstanding the considerable uncertainty ahead, for 2021, the Fund will again target a 4% income.

**All figures relating to stock and index performance are in Euro terms, unless otherwise stated; those relating to fund performance are also gross of fees, unless otherwise stated. This commentary relates to P-INC1 only.*

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IMPORTANT INFORMATION

The Income Opportunities Fund is managed by Setanta Asset Management Limited and is a representative account of the Income Opportunities strategy. The performance shown is the performance of a representative account (ILA/CLI Income Opportunities Fund [P-INC1]). 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 also available on a segregated basis or a UCITS mutual Fund via Beresford Funds ICAV. 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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