# Setanta Income Opportunities Fund
Q2 2021

## 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

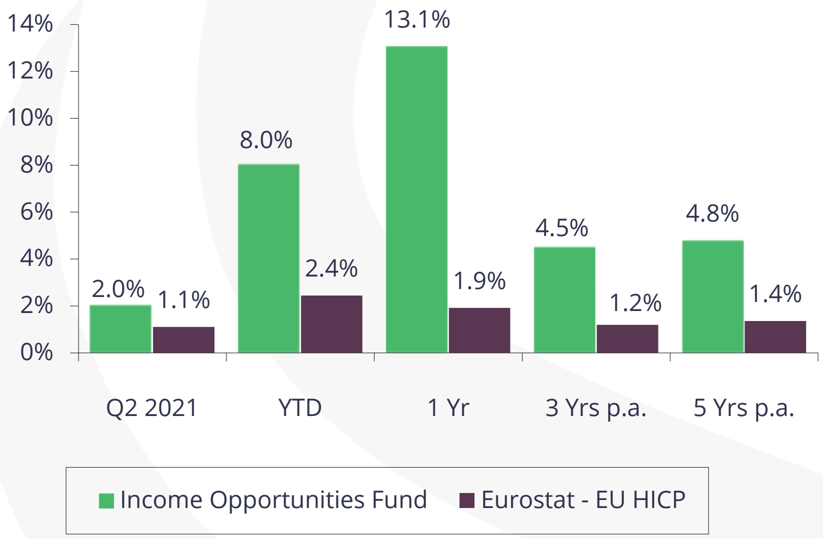
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

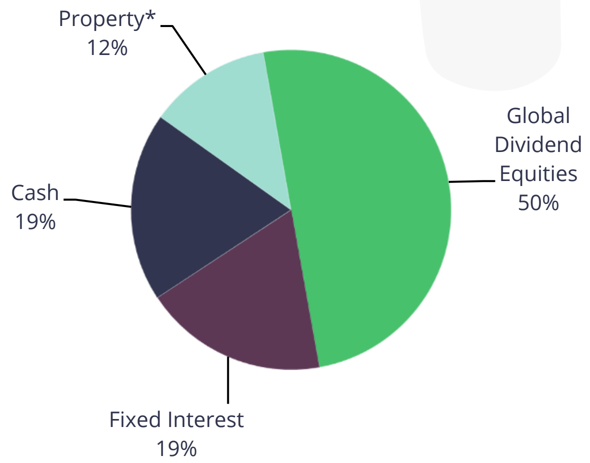
We make mistakes and always endeavour to learn from them

We will act with integrity in everything we do

## Fund Performance – 30.06.2021 (EUR)




## Asset Distribution




*includes 1.5% 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.

## 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% |

## Top 10 Equity Holdings

| COMPANY | SECTOR | % OF FUND |
|---|---|---|
| RICHEMONT | CONSUMER DISCRETIONARY | 2.4% |
| SK TELECOM | INFRASTRUCTURE | 2.3% |
| SVENSKA HANDELSBANKEN | FINANCIALS | 2.3% |
| SAMPO OYJ | FINANCIALS | 2.2% |
| EXXON MOBIL CORP | ENERGY & MATERIALS | 1.8% |
| NWS HOLDINGS LTD | INDUSTRIALS | 1.8% |
| PROCTER & GAMBLE | CONSUMER STAPLES | 1.8% |
| ZARDOYA-OTIS | INDUSTRIALS | 1.7% |
| SANOFI | HEALTHCARE | 1.7% |
| JOHNSON & JOHNSON | HEALTHCARE | 1.7% |

## Market Commentary

Equity markets continued to tick upwards in the second quarter of the year, as capacity constraints in the global economy became increasingly evident. Supply chains for a number of internationally traded goods, from lumber to cars, creaked under the strain of the massive, and sudden, jolt induced by the reopening of major economies. Inflation indices reflected increasing prices across developed countries.

Perhaps most noteworthy is the slowly shifting inflation and growth expectations as priced in financial assets through the quarter. Reflected in a flattening yield curve, bond markets appeared to discount less vigorous growth in the long term, and the increasing likelihood of some degree of future policy response to the spiking inflation. Sure enough, in its June meeting, the Federal Reserve indicated it would be prepared to raise interest rates from the current historically low rates as soon as 2023, signalling a departure from its recent ultra-dovish stance. This shift in expectations combined with the spread of the highly contagious Delta variant of Covid-19 likely contributed to weakness in some of the most cyclical stocks towards the end of the quarter.

## Fund Performance and Activity

The Fund increased in value by 2.0% in the second quarter, bringing its year-to-date total return to 8.0%. Among the top contributors to this performance from the Fund’s equities were SK Telecom and Richemont, while Bangkok Bank was one of the main detractors.

A long term holding, **SK Telecom** (SKT) is the market leader in mobile phone communications in South Korea with 50% market share. This has been a competitive market, requiring operators to deploy state of the art services to satisfy demanding customers. South Korea is well advanced in its deployment of 5G telecom services, and SKT has recruited more than five million high value 5G customers already, a significant proportion of its total customer base. Additionally, SKT has created substantial value via its investments in semiconductors and other local South Korean ICT (information and communications technology) businesses, which we believe were largely underappreciated by the market. Over our holding period we've benefitted from SKT's attractive record of paying dividends, which have contributed nearly half of its total return (on average 5% per annum). During the quarter, SKT's management announced that it intends to split the company into one telecoms provider, and a new SKT Investments entity; a dedicated home for the collection of its ICT investments, with the key rationale of enhancing shareholder value.

**Richemont’s** share price has been significantly volatile in recent times, often driven by the short term trading conditions in one of its largest markets and customer constituencies, China and its growing Chinese middle class. We're attracted to Richemont’s unique set of jewellery and watch brands and secular growing demand for luxury items. We also believe that the company is wisely led by Chairman and largest shareholder Johann Rupert, a veteran investor in luxury brands who put the company together as we know it today and who knows and understands the business like few people do. The company reported resilient full year results in the quarter, and confirmed an excellent outlook for the business, sending shares up strongly. Its recent share price strength reflects expectations of a significant increase in profit and cash flow generation, as economies reopen and global travel resumes. All the while Richemont continues to invest in its business, reaching more customers directly, and keeping good stewardships of timeless brands such as Cartier, Van Cleef & Arpels, and Vacheron Constantin. After cutting its dividend during the pandemic on prudential grounds, Richemont has re-instated it at pre-pandemic levels; we believe it can resume its pre-pandemic trend of growing dividends at more than 5%.

# Commentary

On the downside, **Bangkok Bank's** share price was adversely affected by a raging third wave of Covid-19 in Thailand. The company retains a strong capital position, and a conservatively provisioned loan book. Its business mix, with large market shares in lending to large creditworthy corporate clients, should be more protected from the worst effects of the pandemic than peers with more economically sensitive exposures. After the Central Bank of Thailand restricted dividend payment by Thai banks for much of 2020, Bangkok Bank was this year allowed to resume dividend payments, doing so in the second quarter. We see this as a hallmark of the bank's strong capital position in the face of the region's deepest economic crisis of this century. We believe the company is well positioned with good prospects and a culture of conservative lending. Trading below half its book value, we believe the company is substantially undervalued.

**Coca Cola Amatil** is no longer a holding of the Fund. The Australian-based company was the subject of a takeover approach from European peer, Coca Cola European Partners (CCEP), in October of last year. Initially, CCEP bid for Amatil at A$12.75, supported by its majority shareholder and brand owner, 'The Coca Cola Company'. We, Setanta Asset Management, as well as other shareholders, publicly stated that we believed that the offer undervalued the company. Subsequently, CCEP improved its bid to A$13.50, which we accepted, thus tendering our holding in Amatil during the quarter. We believe that the improved bid is a fair reflection of the company's value. Combined with substantial dividends received over the relatively short holding period (Amatil was purchased Q1 2018), the Fund obtained a total return of almost 80% on this investment.

The Fund also redeemed a number of bonds from its 'Laddered' portfolio (as described in our Q3 2020 commentary). Since investment from the Fund's large cash position, these bonds have improved total return and boosted the income of the Fund. One of the bond issuers, Linde, is a global provider of industrial gases, an industry we know well. It provides oxygen to hospitals and homecare settings and nitrogen for use in food preservation as well as fire retardation. Ryanair, a company that Setanta knows well, was the issuer of another of the bonds. The airline has understandably had a turbulent 15 months, reflective of the extraordinary nature of the pandemic. In investing in its debt, we were cognisant of Ryanair's relatively low debt; its substantial cash balance, and its very strong market position, making it arguably the 'fittest' in any battle for survival. As others focused on shorter-term fears, we were able to invest in Ryanair's debt at relatively attractive levels.

We work hard to understand the long-term dynamics, and valuations, of the businesses that make up the Fund's portfolio, separating wheat from chaff amid the daily price ebb and flow, the wisdom of markets, and the madness of crowds. For us this is what value investing is about, and we find reward when our work pays off in the form of gradual and sometimes sudden recognition of the value we identify. We believe that the Fund is well-positioned with its collection of high-quality dividend paying stocks.

**All figures are stated in Euro, while those specifically relating to fund performance are also stated gross of fees. This commentary relates only to the Income Opportunities Fund sold in Ireland.*


**Contact Details:**

Setanta Asset Management Limited,
Beresford Court,
Beresford Place, Dublin 1, Ireland.

Brendan Moran, Tel: + 353 1 612 4962
Email: brendan.moran@setanta-asset.com
www.setanta-asset.com


## 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.

Setanta Asset Management Limited is regulated by the Central Bank of Ireland, New Wapping Street, North Wall Quay, Dublin 1. This factsheet, which is for information purposes only, does not form part of any contract. This is a marketing communication that (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination investment research. The information contained in this document is based on current legislation and is, therefore subject to change. The contents are intended as a guideline only and should not be construed as an interpretation of the law. You should always seek the advice of an appropriately qualified professional. Performance disclosures are stated above.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages

**WARNING:** Past performance is not a reliable indicator of future results. The price of units and the income from them may go down as well as up and investors may not get back the amount invested. The return may increase or decrease as a result of currency fluctuations. Forecasts are not a reliable indicator of future performance

SETANTA
Asset Management