Setanta Managed Fund
Q2 2021

Fund Description

The **Managed Fund** ("the Fund"), managed by Setanta Asset Management Limited ("Setanta"), is a unit-linked offering of Irish Life Assurance.

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 +3.2% over the second quarter, adding to the strong performance in quarter one, bringing performance year to date to 11.1% (net of fees).

Returns were driven by strong equity performance, supported by the accelerated pace of vaccination (mitigating some concerns around the greater transmissibility of the Delta Covid variant), positive dynamics of economies reopening (faster and stronger than expected), and a robust corporate earnings season.

(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

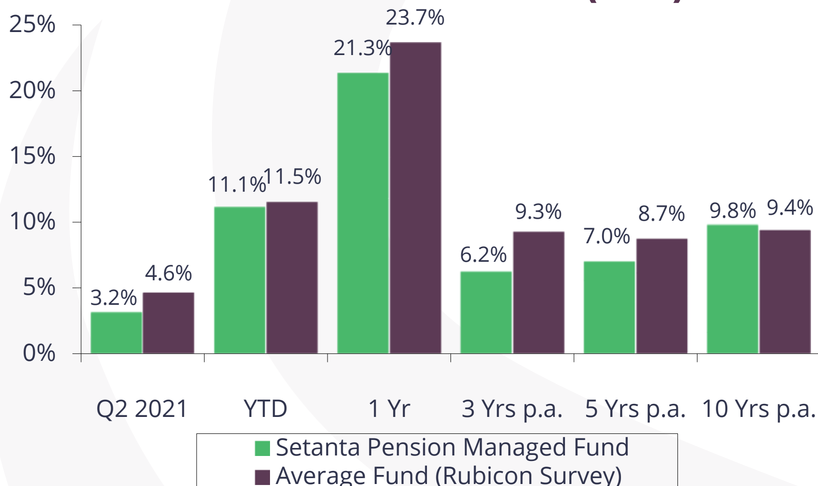
We consider scenarios rather than making forecasts

Businesses we own must have strong balance sheets

We make mistakes and always endeavour to learn from them

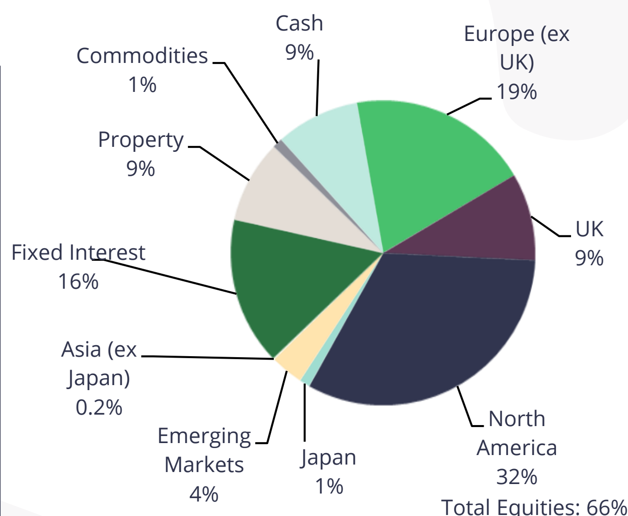
We will act with integrity in everything we do

Fund Performance – 30.06.21 (EUR)

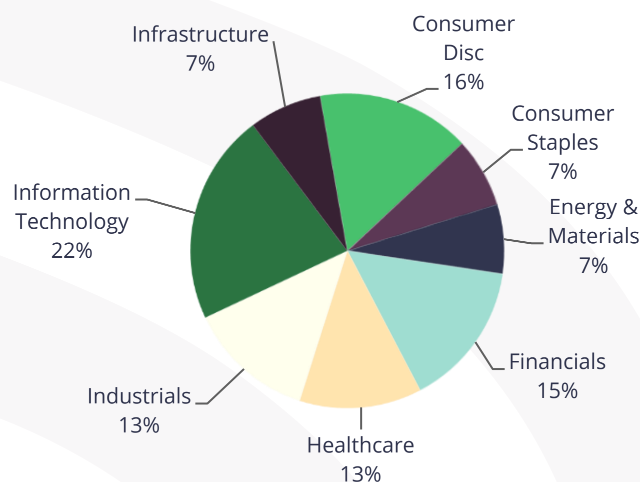


Performance Source: Setanta Asset Management Limited. The actual Fund returns stated are based on the movements in the unit prices of an institutional series of the Fund (ILA/CLI Setanta Managed Fund [H012]) and are net of management fees. Benchmark: Rubicon Pension Managed Fund Survey. **Holdings Source:**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

Geographic & Asset Distribution



Sector Distribution



Top 10 Equity Holdings

COMPANY	SECTOR	% OF FUND
MICROSOFT CORP	INFORMATION TECHNOLOGY	2.9%
ALPHABET INC	CONSUMER DISCRETIONARY	1.9%
BERKSHIRE HATHAWAY	FINANCIALS	1.9%
MCDONALD'S CORP	CONSUMER DISCRETIONARY	1.6%
ORACLE CORP	INFORMATION TECHNOLOGY	1.6%
JOHNSON CONTROLS	INDUSTRIALS	1.6%
DCC	INDUSTRIALS	1.6%
NIKE INC	CONSUMER DISCRETIONARY	1.5%
SAMSUNG ELECTRONIC	INFORMATION TECHNOLOGY	1.5%
JOHNSON & JOHNSON	HEALTHCARE	1.4%

Fixed Interest Portfolio

CREDIT RATING WEIGHTING		
CREDIT RATING TYPE	**ASSET TYPE WEIGHTING**	**BENCHMARK WEIGHTING**
AAA	15.5%	22.5%
AA	42.9%	35.1%
A	13.1%	18.5%
BBB	28.5%	23.9%
	100.0%	**100.0%**

Yearly Performance

Year %	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
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	-3.1
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	6.2

Commentary

Global equities generating a positive (+4.9%) return, though underperformed the benchmark (+6.8%) by -1.9%, with value stocks lagging growth stocks as the reflation trade took a pause.

Within global equities, all sectors posted positive returns. The Consumer Discretionary (+7.1%) and Telecom & Utilities (+5.8%) sectors led performance, while the Energy (+1.3%) and Healthcare (+2.6%) sectors, were the laggards. The second quarter was particularly strong for US equities, with the S&P 500 reaching a new all-time high in late June.

Bonds saw mixed performance. In sovereigns, the German 10-year yield rose from -0.3% to -0.2%, while US Treasury yields declined, with the 10-year falling from 1.7% to 1.5%, retracing some of the large move higher in the last few months.

European government bonds (-1.0%) fell, as yield curves bear steepened, while our Emerging Market sovereigns (+2.6%) and Credit exposure (+1.3%) both performed well as Emerging market currencies rallied and corporate spreads were stable at tight levels.

Economic data points, were strong through the quarter, with Eurozone Services PMI (58.3 +8.7pts) indicators, closing the gap with Eurozone Manufacturing PMI (63.4 +0.90pts), while both are now well into expansionary (above 50) territory. US data plateaued at elevated levels.

Irish property exposure was slightly negative (-0.3%), bringing performance year to date (-0.1%), to flat. While disappointing, Ireland having experienced one of the longest period of restrictions in any country in Europe, created significant headwinds. Post a successful roll out of the vaccination programme, commercial property should be well-placed to rebound over the second half of the year.

It’s been an interesting quarter. Inflation, a concern in Q1, has not gone away. Though economic prints have been higher, markets seem a little more sanguine about it. While Central banks have done their best to both calm and confuse markets.

Over the quarter, headline inflation in Europe increased from 1.3% to 1.9%, and from 2.6% to 5.4% in the US. Solid moves, focusing any hawkish central bankers’ attention. However, inflation has been persistently low for the last decade, and notwithstanding the unprecedented monetary and fiscal firepower unleashed on markets, a closer look at the drivers of the recent inflation spike is essential before making any rash decision.

Base effects, simply this year prices versus last years, will for a period of time lead to a dramatic rise in the year on year figures. This can cloud the fact that prices may not be back to pre-pandemic levels, but makes for exciting headlines. Supply and demand imbalances, caused by restrictions and frictions in global supply chains can also feed into near term price pressures. A trebling in container freight prices from Shanghai to Rotterdam or the fact that US used car prices are up over 50% in the last year due to semiconductor shortages reducing available new cars, some simple examples.

These effects should dissipate over time as year on year comparisons fall out, supply chains pivot and bottlenecks reduce, and demand built up by pent up savings (and pent up consumers) are drawn down.

Looking at the most recent US inflation, the substantial move higher was driven primarily by used cars, airline fares, and lodging away from home. These transitory pandemic influences, you would imagine will fade as economies fully open. The dispersion, amount of goods contributing to price increases, is still quite narrow. If these broaden out beyond, “re-opening” type parts of the economy, and those standard in an economy emerging from a recessionary shock, it would then warrant greater concern.

So, in a quarter where inflation rose +2.8% in the US, the ten year bond fell -27bps and Inflation swaps (expected inflation over five years five years from now) also fell from 2.43% to 2.35%. Bond markets are betting it's transitory, time will tell. The greater issue maybe inflationary expectations, which could settle at a persistently higher level, and how that feeds into demands for increases wages, this as yet has not been an issue.

Turning to central bankers, the modern day lords of finance, and their views of the current environment.

"On the one hand, an even stronger recovery could be predicated on brighter prospects for global demand and a faster-than-anticipated reduction in household savings once social and travel restrictions have been lifted. On the other hand, the ongoing pandemic, including the spread of virus mutations, and its implications for economic and financial conditions continue to be sources of downside risk."

- Christine Lagarde, President of the ECB, Frankfurt am Main, 10 June 2021

"You can think of this meeting that we had as the 'talking about talking about' meeting, if you'd like," he said. "I now suggest that we retire that term, which has served its purpose."

"And the last thing to say is, the dots are not a great forecaster of, of future rate moves. And that's not because—it's just because it's so highly uncertain. There is no great forecaster of, of future dots. So, so dots to be taken with a—with a big, big grain of salt".

- Chairman Jerome Powell, Federal Reserve press conference, 16th June 2021

Here you have the two leading global central bankers commenting on their collective committee's views.

Which reminds me of American president Harry Truman once commenting "GIVE me a one-handed economist," demanded the frustrated the American president. "All my economists say, 'on the one hand...on the other'". In fairness to Lagarde, she is not an economist, but the point stands.

While Powell tries to give some forward guidance on the timing of bond tapering (stopping buying bonds), they are about to talk about it seemingly! While following up by essentially saying their projections (the famous dot plots on growth, rates & inflation) which generates a lot of interest with each tweak up or down, are pretty much useless.

I highlight these comments only to show, that with the vast intellect and resources behind these institutions, they don't know how this recovery is going to play out. They can merely adapt and react to the data as it comes in over time, as we have seen with a greater push into unconventional monetary policy over time and the addition of aggressive fiscal policies by governments. So market gyrations around these meetings and comments should be taken with, well, a big, big grain of salt.

There is of course a risk of "Recency Bias" (cognitive bias that favours recent events over historic ones) amongst us all (central bankers included). As we have had low inflation for so long, potentially higher inflation risks are being underestimated. However, making decisions on a couple of data points isn't prudent over the longer term, while being aware that there are some large anomalies that need to wash through. All we can do is continue to manage the portfolio in a prudent manner, based on valuations and a sensible level of diversification, aiming for positive real returns over the longer term.

David Ryan – Head of Multi-asset Funds

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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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