Setanta Income Opportunities Fund

Q3 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

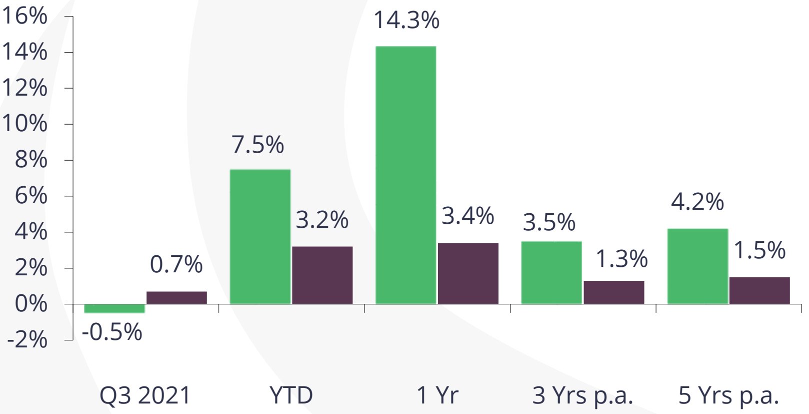
We consider scenarios rather than making forecasts

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 – 30.09.2021 (EUR)



Yearly Performance

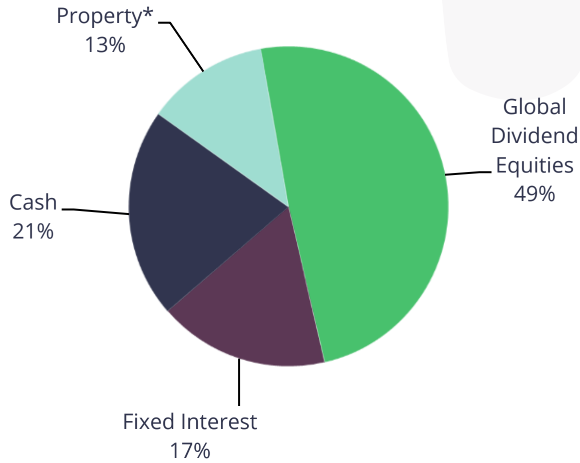
Year %	2016	2017	2018	2019	2020
Fund	9.7	2.9	-1.2	13.7	-5.6
Benchmark	1.1	1.4	1.6	1.1	-0.3

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
SAMPO OYJ	FINANCIALS	2.4%
SVENSKA HANDELSBANKEN	FINANCIALS	2.3%
SK TELECOM	INFRASTRUCTURE	2.3%
RICHEMONT	CONSUMER DISCRETIONARY	2.1%
ZARDOYA-OTIS	INDUSTRIALS	2.1%
PROCTER & GAMBLE	CONSUMER STAPLES	1.9%
DCC ORD	INDUSTRIALS	1.7%
EXXON MOBIL	ENERGY & MATERIALS	1.7%
JOHNSON & JOHNSON	HEALTHCARE	1.7%
GLAXOSMITHKLINE	HEALTHCARE	1.7%

Asset Distribution



*includes 1.5% in IRES REIT

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%

SETANTA
Asset Management

Commentary

During the quarter an increasing number of companies have been dealing with inflationary pressure throughout their supply chains[1], fostered by the Pandemic-induced backlog of demand and deficit in supply, coupled with unprecedented supportive fiscal policies. Last May famed value investor Warren Buffett noted that 'people have money in their pocket', 'it is not a price sensitive economy right now in the least' and the 'supply chain's all screwed up[2]. With increasing costs and time lags in the global markets for semiconductor chips and shipping, an upward trajectory for many commodity prices and ripple effects reaching most industries, a key consideration now is whether the inflation will be self-fulfilling and persist. In 1982 Buffett likened inflation to a tapeworm which 'consumes its requisite daily diet of investment dollars regardless of the health of the host organism' and inflicts 'punishment' on bad businesses – those earning low returns – and their shareholders[3]. Businesses that he views as best placed to withstand an inflationary environment include those with good brands, good pricing power or low capital needs.

At the onset of the Pandemic orders poured in for semiconductor chips as businesses and classrooms rushed to get online. Having cut chip orders, auto manufacturers were caught off-guard when demand later surged for vehicles. The resulting chip shortages are affecting a broad spectrum from autos and white goods to phones and toys. Major semiconductor chip manufacturer and fund holding **TSM** has recently announced price rises of up to 20%, the largest in a decade, in part to reduce double-booking by prospective customers but also to finance increased investment to tackle the heightened chip demand and to counter against cost increases in materials and logistics. Hit by shortages in camera sensors and application processors, **Samsung**, another fund holding, has been held back in phone production, with shortages suspected as a factor in its postponement of this year's annual Galaxy Note iteration launch. In autos, some dealerships are selling much of their inventory before it arrives on the forecourt and the distortion has pushed prices for used cars up over 30% in the US compared with pre-Pandemic levels.

The world's shipping industry is operating at full capacity. Shortages of staff to empty containers, backlogs of containers for collection and queues of vessels awaiting unloading are causing congestion which is adding up to 30 days to major shipping routes. Inefficiencies and lockdowns mean containers are stuck in the West leaving them in short supply for Asian exporters, meanwhile reduced availability of air freight capacity on passenger planes is pushing more traffic to the seas. Spot rates for sea freight are up over 500% for the Shanghai to Rotterdam and Shanghai to LA routes since 2019[4].

Cisco, which supplies networking and routing equipment, and is held in the Fund, resorted to receiving components by airfreight to prevent a halt of its manufacturing lines and an excessive lengthening of wait times for its customers. Initially absorbing the logistics and chips cost increases Cisco endured margin compression but has recently implemented price increases for new orders.

Both Nestlé and Unilever, consumer staples holdings of the Fund, have also experienced an interim hit on their margins during a lag until price increases take effect for their customers. **Nestlé** noted that its inability to hedge against higher transport and packaging costs had affected it. **Unilever's** CFO spoke of 'decade highs'[5] for some of its key commodities.

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[1]'According to a FactSet analysis of S&P 500 companies that conducted earnings calls from mid-June to mid-September, 224 of those cited "inflation." That marks the highest figure on record going back to at least 2010' – Grant's, 22nd September 2021.
[2]Warren Buffett, 1st May 2021 at Berkshire Hathaway AGM.
[3]Warren Buffett, 26th February 1982 Chairman's letter to the Shareholders of Berkshire Hathaway
[4]WCIDSHLA (WCI Shanghai to Los Angeles Container Freight Benchmark Rate per 40 Foot Box) & WCIDSHRO (WCI Shanghai to Rotterdam Container Freight Benchmark Rate per 40 Foot Box), 02/01/20-30/09/21
[5]Graeme Pitkethly, 22nd July 2021 on Unilever's H1 2021 Earnings Call

He referenced an 80% increase since last year in the price of soybean oil, an input for Hellmann's Mayonnaise, and a premium of 70% to its long-term average for palm oil, ingredient of Dove bars and Radox. While Unilever sees transport cost inflation as cyclical, it cautioned that new sources of demand for things like packaging, due to the increased penetration of e-commerce, could mean that some cost pressures become structural.

As the quarter was ending stimulus programmes were winding down. China's Evergrande faces impending collapse with its $300b debt load threatening international instability and all eyes on the Chinese authorities for intervention given the company is symbolic of the domestic real estate and related services market, which Moody's values at over 25% of GDP . The approach of the deadline for raising the US debt ceiling carried a sovereign default risk and the US Federal Reserve is expected to hike interest rates in the coming months to arrest inflation, with implications for growth and bond yields. Consequently, global markets are reflecting a nervous energy and bond yields have started to rise. This has been felt in the Fund towards the end of the third quarter, as it is down 0.5% in Q3 but up 7.5% for the year so far.

In the equity portfolio, **Zardoya Otis**, the Spanish lifts company, contributed strongly to the Fund's return this quarter following an offer by its parent, Otis, to buy out the minority shareholders at a 30% premium to the share price. Zardoya operates a lucrative maintenance and repairs business with high customer retention among its sizable base of residential elevators in Spain, where the market tends to be oligopolistic. **Fortescue** was a detractor for the Fund in the third quarter, falling on fears of a pullback in steel demand due to the Chinese real estate concerns. This Australian iron ore miner is the world's lowest cost operator with substantial reserves. Despite its recent decline, Fortescue has been a very strong contributor to the Fund since its purchase in 2018 both in terms of income return and capital appreciation.

A couple of the bonds in the 'Laddered Portfolio' matured during the quarter, including those of Schneider Electric. We had previously researched Schneider Electric for the equity portfolio and found that although many of its electrical products are widely available in generic versions Schneider has been able to maintain a sizable global market share on account of its strong brand name and reputation for quality. We were confident in its ability to fund its debt obligations and happy to pick up the 2.5% coupon along the way.

While we generally do not make equity forecasts, we do believe that the companies in the Dividend Fund are good value and high quality. We believe that they are well prepared to withstand the market's inflationary and weakening growth concerns through their low leverage and their competitive strengths. As is the case in the examples mentioned, widely recognised brands, businesses with high market shares and those with efficient operations are in a better position to pass through cost inflation than peers.

**All figures in euro, unless stated otherwise; fund performance figures stated gross of fees.*

[6]Moody's, 23rd July 2021, 'Property sector plays a key role in China's economy, with far-reaching and significant influence across other important sectors' Infographic.

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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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